Price 1/6 NOVEMBER 1951

ECONOMIC DIGEST

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Published monthly in London for the

ECONOMIC RESEARCH COUNCIL

ECONOMIC DIGEST

NOVEMBER, 1951 VOLUME IV NUMBER ELEVEN

SEEN IN PERSPECTIVE by MARTIN GOETZ

New U.K. Government
Launched Into Stormy Seas

THE NEW U.K. Government will have to cope with the renewed threat to Britain's external stability, which has become apparent to the wider public during the last few weeks. The announcement of the fall in our central gold and dollar reserves by $598 million in the third quarter of this year brought the sharp setback of the Sterling Area into a clear focus. At $3,269 million the reserves were (on September 30) still $500 million higher than a year ago, and nearly $2,000 million above the level at the time of devaluation; and yet the loss within three months of almost one-quarter of the increase in the reserves built up since devaluation is a clear danger signal.

No detailed analysis of the balance of payments in the third quarter is yet available. But the figures for the first six months have been published in the usual Balance of Payments White Paper. During that period the underlying longer-term factors, which have reversed the trend in our external position, became manifest—increased expenditure on imports by the U.K. and the Sterling Area as a whole in consequence of higher prices, and a much smaller rise in the Sterling Area's export income.

General Balance of Trade

For the first time since 1948, the U.K. overall balance on current account (i.e., the balance with all other countries) has turned into a deficit again. This amounted to £122 million for the first half of 1951 and compares with a surplus of £221 million in 1950 (£42 million in the first half and £179 million in the second half) and a surplus of £21 million in 1949.

The reappearance of the overall deficit reflects the rise in the volume and the prices of our imports, whereas exports barely maintained their volume and rose less in price.

Admittedly, import prices during the first half of 1951 reflect the peak of commodity prices reached during the first quarter of the year, and whereas import prices declined from June, export prices showed a further advance. Thus the terms of trade have improved, but were still 10 per cent. worse in September 1951 than in 1950.

It is too early to say whether commodity prices will stay at their present level. A renewal of inflation in the United States, when American rearmament gets into full swing during the winter, may drive raw material prices up again.

The surplus on "invisible" trade (i.e. services and other current—as distinct from capital—transactions) showed a slight improvement from £213 million in the second half of 1950 to £216 million in the first half of 1951. This item will now be adversely affected by the loss of Persian oil.

U.K. Regional Balance

Whereas the general balance shows our position in relation to all other countries combined, the regional balance indicates the developments in our payments relations with the main geographical areas. The outstanding changes in the regional balance for the first half of 1951 compared with the second half of 1950 are the doubling of the deficit with the dollar area, the reappearance of a deficit with the O.E.E.C. (Marshall Aid) countries, and the sharp reduction of the surplus with the rest of the Sterling Area.

Increased imports led to a rise in the U.K. deficit with the dollar area from £51 million in the second half of 1950 to £109 million in the first half of 1951. This is larger than the deficit in the whole of 1950 (£107 million).

The surplus with the O.E.E.C. countries of £69 million in the second half of 1950 changed into a deficit of £26 million in the first half of 1951. This was due to a sharp rise in the imports compared with a smaller rise in exports and a moderate decline in the net income from invisibles.

The U.K. surplus with the rest of the Sterling Area fell from £135 million to £46 million, imports rose from £500 million to £660 million, exports from £528 million to £576 million and net earnings from invisibles from £107 million to £130 million.

Investment and Financing Account

The Investment and Financing Account shows how the current surpluses and deficits have been financed (together with the complex capital transactions arising from Britain's position as an international centre).

Mr. Graeme Dorrance has taken up an important post with the International Monetary Fund in Washington and is no longer able to contribute to "Economic Digest".

Total grants (net) to the U.K. remained almost unchanged compared with the previous half year at £30 million; but E.R.P. grants declined from £96 million to £44 million with the suspension of Marshall Aid. There was a new increase in overseas investment of £109 million (compared with a decrease of £23 million in the second half of 1950 and an increase of £25 million in the first half of 1950).

On the other hand, our sterling liabilities increased by £404 million as against £218 million in the whole of 1950. Our gold and dollar reserves, which are the central reserve of the whole Sterling Area, rose by £203 million (as against £262 million in the first half and £314 million in the second half of 1950) to £1,381 million. The net change in the capital account (including grants) was a disinvestment of £92 million (compared with an investment of £360 million in 1950 and £175 million in 1949).

Gold and Dollar Accounts

As the gold and dollar reserves of the U.K. form at the same time the central reserve of the Sterling Area, the gold and dollar accounts necessarily comprise not only the transactions of the U.K. but also of the whole Sterling Area.

The U.K.'s dollar deficit on current transactions was £109 million ($305 million) in the first half of 1951. This is more than the deficit for the whole of 1950 (£107 million or $300 million). It was reduced by other transactions (investment, etc.) to £74 million ($208 million); this

compares with £64 million ($177 million) for the whole of 1950.

The total dollar surplus of the rest of the Sterling Area amounted to £190 million or $532 million in the first half of 1951, against £251 million or $704 million in the whole of 1950 (£136 million or $382 million in the second half of 1950).

This increase reflects the rise in receipts for Sterling Area raw materials in the first half of this year. The surpluses are reflected in net sales to the central reserves. In addition, the total contains (apart from other small items) sales of gold for sterling to the U.K. by the rest of the Sterling Area, mainly South Africa (£100 million in 1950, £41 million in the first half of 1951).

There is also a third group of transactions with non-dollar, non-sterling countries, leading to net transfers of gold and dollars which are either clearly attributable both to the U.K. and to the rest of the Sterling Area, e.g., settlements with the European Payments Union, or cannot be readily allocated between the U.K. and the rest of the Sterling Area. Total dollar receipts for this group amounted to £32 million or $90 million in the first half of 1951 compared with a deficit of £27 million or $76 million in 1950. The rapid worsening of the U.K.'s position towards E.P.U. in recent months will adversely affect this item.

Altogether, the total net gold and dollar surplus of the Sterling Area was £148 million ($414 million) in the first half of 1951 against £287 million ($805 million) in the whole of 1950 (of which £209 million or $585 million in the second half). The total net surplus was turned into a net deficit of £228 million ($638 million) in the third quarter of 1951.

European Payments Union

The Balance of Payments White Paper contains detailed tables on the U.K.'s position in the European Payments Union (E.P.U.). The U.K. net surplus or deficit with E.P.U. includes also transactions between the rest of the Sterling Area and the O.E.E.C. countries (and also transfers of sterling between O.E.E.C. countries and other non-sterling countries). It is important to remember that the U.K. position in E.P.U. in fact represents the whole Sterling Area.

At the end of the first year of E.P.U., June 30, the U.K.'s accounting surplus with E.P.U. was £132.8 million; for £28.6 million it has received gold from E.P.U. (the peak of its surplus was reached in April when total gold receipts by the U.K. amounted to £42.6 million; £14 million were repaid to E.P.U. in May and June when the U.K. had monthly deficits with E.P.U.).

Further deficits in July and August led to the repayment of the remainder of the gold previously received and in September the U.K.'s former cumulative surplus was completely wiped out and it became a debtor to the tune of £50.6 million. When the cumulative deficit reaches £75.7 million (20 per cent. of the quota), the U.K. will have to begin gold payments to E.P.U. Thus, there is a danger of further gold losses to Europe in the near future.

Sterling Balances

The increased dollar receipts by the rest of the Sterling Area, together with the reduced surplus of the U.K. vis-a-vis the rest of the Sterling Area, led to a further increase of the sterling liabilities to sterling countries by over £300 million in

the first half of 1951. The table below shows the development of U.K. sterling liabilities for the past year.

U.K. STERLING LIABILITIES
(£ million)

	June 30 1950	Dec. 31 1950	June 30 1951
To non-sterling area countries	997	1,013	1,070
To sterling area countries ...	2,569	2,730	3,098
Dependent overseas territories	(645)	(754)	(908)
Other sterling area countries	(1,924)	(1,976)	(2,190)
	3,566	3,743	4,168

Essential Tasks

The decline in the gold and dollar reserves during the past quarter mentioned at the beginning of this article, indicates that the position further deteriorated. The decline in the reserves reflects above all a worsening of our dollar balance and also the changed position of the Sterling Area towards E.P.U.

Partly, this development is due to seasonal factors—the third quarter is a period for heavy purchases of cotton and tobacco in the United States and low earnings from wool and cocoa; it is also a period of heavy British tourist expediture on the continent. There are also some other factors which though not permanent will continue for some time. Stockpiling for strategic purposes and rebuilding of commercial enterprises in the U.K. and some other sterling countries has increased imports, and the replacement of Persian oil requires increased dollar expenditure, estimated at an annual rate of $300 million, though this cost will progressively decrease.

The longer-term problem is the deterioration in the terms of trade of the Sterling Area and the need for increased imports for rearmament purposes. On the other hand, receipts from Marshall Aid are coming to an end, and at the end of the year new commitments fall upon the U.K.; the beginning of the repayment of the U.S. and Canadian loans is due, although the waiver clause may be invoked.

It will be difficult to keep up exports of capital goods in view of the competing claims of rearmament on the engineering industries; but the U.K. must fulfil, for political reasons, its commitments under the Colombo Plan, and for strategic reasons, provide equipment for the development of raw material resources in the Commonwealth and Colonies. Exports to the Sterling Area must also be kept up. The sterling countries cannot be expected to accumulate indefinite amounts of sterling balances without using them. If these exports are not kept up, the very existence of the Sterling Area might become endangered.

Thus, the claims of exports and rearmament compete with domestic consumption and civil investment at home. In other words, there must be disinflation, involving a reduction of both capital expenditure and consumption.

There is, however, one sector where increased production could greatly assist the domestic task and quickly improve Britain's commercial and political position towards Europe:—*A rapid increase in coal output would not only avert the risk of a new fuel crisis, but also—if exports were restored to their pre-war level—facilitate the rearmament of the continental countries, save Europe dollars for imports of American coal and allow Britain to speak with a decisive voice in the councils of Europe.*

Illusions Which Lead to Runaway Inflation

By Colin Clark

ECONOMIC CRISES in Britain seem to be becoming a feature of almost foreseeable regularity of recurrence. Why?

The reason is that virtually the whole British people cherish three economic illusions—each one, taken singly, extremely dangerous, and the three in combination fatal.

Cheap Food

The Cheap Food illusion has arisen from the progressive downward trend in the 1920s and 1930s. Taking 1913 = 100 as a base, about 1880 the terms of trade were adverse to Britain, and the figure stood at over 120. But for the 1920s the average came down to 80, and for the 1930s down to 72.

Unfortunately, this state of affairs persisted long enough for people to come to regard it as normal. By 1947 the figure had risen to 84. By 1950 to 94, and by June, 1951, to 111, i.e. rather more adverse than in 1913, but not yet as adverse as in 1880.

There is no excuse for this failure to foresee the adverse movement of the terms of trade. There is every sign that the present trend will continue throughout the decade. It must be remembered that many British imports are still bought at prices far below world level and exports sold at prices above world level; this cannot go on indefinitely.

There seems to have been an almost unanimous conviction among Englishmen of every political party, and of almost every school of thought, that the days of cheap food would soon return.

Those who continue to believe that cheap food and raw materials are just round the corner are doing so in face of all the evidence, and must be held responsible for the consequences of any actions based upon this belief.

Taxable Capacity

The next point at issue is taxable capacity. In each post-war year national and local taxation has been levied at a rate of over 40 per cent of the entire factor-cost national income. In no other country has a rate like this ever been approached. In December, 1945, I contended that the safe limit of taxation was 25 per cent. of national income. This result was based upon a study of the actual experience of attempts which had been made, at various times and places, to exceed this limit. In every case the effects were so discouraging to real production and encouraging to the circulation of money, that within two or three years an inflation supervened sufficient to raise prices (and thus the money value of national income) to a point where the 25 per cent ratio again prevailed.

The inflationary forces which this excessive taxation let loose have been held in check for some years by the force of public opinion, by rigorous controls, and by favourable external trading conditions.

From Manchester Guardian, September 18, 1951

Productivity

Ministers and civil servants seem to have persuaded themselves that productivity is increasing at an unprecedented rate. It has been claimed in recent years that real product (not money product) has been increasing at the rate of 5 per cent per annum, a rate hardly attained by any country at any period of its history. This pleasing result is obtained by concentrating exclusively upon index numbers of production which appear to have considerable statistical bias. Careful examination of White Paper figures of national income certainly does not confirm this story.

Real product per man-hour is rising only very slowly and is only about 5 per cent higher than that of 1938. About half of this increase has been swallowed up in shorter working hours.

The Consequences

What then, will be the consequences? If we distrust theoretical reasoning, let us seek an empirical parallel. Britain's position to-day bears certain important resemblances to that of France after the First World War. Britain's inflationary pressure cannot now, any more than that of France in the mid-twenties, be called a continuation of war-time inflation.

The immediate post-war cycle has come and gone, with dollar prices rising to a post-war maximum in 1948 (corresponding to 1920) and falling to a post-war minimum a year later in each case—the only difference being that both the upward and downward movements in 1948-9 were much more gentle than the analogous movements in 1920-1.

But in post-1918 France and in present-day Britain this cycle has been followed by an independent inflationary cycle, in each case deriving its motive power from the same cause—excessive Government expenditure. There are, of course, differences: Britain in 1950 spent 7 per cent of the national income on defence, 5 per cent on National Debt interest, and the rest of the 40 per cent on social and administrative services, and the Budget was balanced by rates of taxation which obviously impose excessive deterrents on enterprise. In France in 1922 Government expenditure was 34 per cent of national income, including 5 per cent on defence and no less than 14 per cent on National Debt interest, and the Budget was hopelessly unbalanced; at the same time the basic industrial situation was far more favourable, with productivity tending to increase.

As the French inflation moved to its climax in 1926, the French press, with virtual unanimity, fixed the blame upon the machinations of a British Government determined to destroy the value of the French currency out of hatred for French political ideas. If a British inflation now supervenes, there is little doubt, I fear, that it will be blamed upon the Americans.

FINANCIAL EDITOR'S COMMENT

THAT THIS COUNTRY has been living in an illusory security is perhaps more widely realised than Mr. Clark suggests. It has long been frightening to look into the brittle foundations of British economic life.

But Mr. Clark fails to make a distinction between events which are in the nature of things and those which are the result of policy. The

From Financial Editor, Manchester Guardian, September 19, 1951

one we shall have to swallow: the other we may well change before disaster overtakes us.

It is true, of course, that the terms of trade have been turning heavily against us, but it seems unreasonable to base a forecast on the runaway price rises of the first half of 1951. A new equilibrium is likely to be established at some point—at the latest when it begins to pay the primary producers so well to be primary producers that they slow down industrialism.

Again, it is only too true that the crude method used in official documents of comparing changes in the size of the labour force with the index of industrial production, which covers only the activities of about eleven million work-people, are very shaky. If productivity was really rising at the marvellous rates mentioned in official claims the visible evidence would not be so solidly against it. But Mr. Clark's attempt to put a figure on the true increase does seem to understate the effect of the shift from low-output to high-output industries and the modernisation of equipment.

The limits of taxable capacity have certainly been exceeded. Even Mr. Clark hardly stresses sufficiently the cumulative moral effect of present tax rates. But the deterrent to incentive and to the supply of risk capital for industrial progress depends not merely on the proportion of tax to national income but even more on the means and methods of taxation.

In any case the figure of 25 per cent is quite arbitrary; if the tax system was reformed so as to encourage work and some gradual reductions could be expected, this danger would shrink. All this is not meant to suggest that the outlook is comfortable. Far from it: the longer these illusions are kept intact the worse will be the awakening.

A READER SAYS—"ANALOGY MISLEADING"

MR. COLIN CLARK remains faithful to his old principle that, wars or no wars, the long-run economic trends will assert themselves. It is surprising, however, that in analysing recent price movements Mr. Clark does not even mention the war in Korea, stock-piling, and rearmament. The long-run trend might well continue to favour primary commodities, but in order to analyse long-term movements one must isolate them from passing short-term influences, and the latter are at present particularly strong.

The most controversial point of the article, however, concerns taxation and Government expenditure, and the analogy with France is clearly misleading. There is a whole world of difference between an inflation, as in France in the 1920s, arising out of Government deficit spending and a cost inflation, as in Britain at present, developing in spite of a Budget surplus because of sky-rocketing prices of raw materials purchased from abroad.

If, as Mr. Clark implies, both taxation and expenditure should be cut, then the cut in expenditure must really be drastic.

Where should the axe fall? (1) on defence, (2) on subsidies, or (3) on social services? The whole gravity of the problem is to be found in the fact that only marginal adjustments

From Letter from H. Tyszynski, Manchester Guardian, September 27, 1951

in Government expenditure and taxation appear feasible.

It is regretted that Mr. Clark did not focus attention on positive national and international measures which would increase productivity and prevent excessive fluctuations in prices of raw materials and thus combat inflation without cutting down social services.

THREE REASONS TO-DAY

By Harold Wincott

We've got inflation for a variety of reasons. A friend of mine, at a recent dance, asked a sweet young thing, dressed in what I believe is called a will-power frock, the question I've always wanted to ask. "What," he said, "keeps it up?" "Gravity," replied the S.Y.T. "Gravity?" queried my friend, who thought he knew his Newton. "The gravity of the situation if the thing fell down," lisped the S.Y.T.

The gravity of the situation if the thing fell down is one reason why we have inflation to-day.

The truth of the matter is that democratic politicians love inflation, provided it's a genteel inflation. They're scared stiff of deflation, to a man. Deflation to them means millions of unemployed, strikes, hunger marches—and Hitler.

A study of economic history furnishes three main reasons for inflation. First, war and its aftermath. Second, a fundamental change in supply of and demand for labour. Third, an expansion of the credit base.

In history, however, you seldom got these three causes of inflation coinciding. To-day, in Britain at least, you've got all three together.

You may object that all this is too elementary and obvious for words. So it ought to be. But it isn't—or, if it is, it's one of those blinding glimpses of the obvious no one sees. Personally, I'm a great believer in making your diagnosis as simple as possible. Then you have some hope of finding the right cure.

From "Why We Get It," Financial Times, October 9, 1951

INTERNATIONAL MATERIALS CONFERENCE: ACHIEVEMENTS

The International Materials Conference, on which 27 nations outside the Soviet orbit are represented, produced useful results during the first six months of its life. The Committee obtained estimates of the world supply and demand for 14 commodities. Recommendations for the allocation of sulphur, molybdenum and tungsten, all of them products of considerable importance to the defence effort, for the third quarter of 1951 were accepted by governments. Committees recommended measures for conservation of use of tungsten, molybdenum, manganese, cobalt, nickel and copper. They agreed upon emergency allocations of newsprint to take care of special shortages in 11 countries. On September 21 the governing body of the IMC announced a revised classification of strategic commodities: (1) those for which equilibrium seems to be attained—cotton, cotton linters and kraft pulp; (2) those which will have to be kept under review—lead and wool; (3) those which are in short supply—copper, zinc and sulphur, tungsten and molybdenum, manganese, nickel and cobalt, dissolving pulp and newsprint.

International Materials Conference: October 1951

ECONOMIC SURVEY OF ASIA AND THE FAR EAST

Anxiety Over Asia

By Dr. P. S. Lokanathan (Executive Secretary, ECAFE)

Wave of Prosperity Superficial: The opening months of 1950 promised fulfilment of the hopes that 1949 had marked the end of the first phase of painful post-war recovery in the countries of Asia and the Far East. But political events in the middle of 1950 halted progress. Although superficially the second half of 1950 brought a wave of prosperity to many parts of the region, the blunt and grimly paradoxical fact is that these improvements were based primarily on the impact of the Korean war and rearmament in other parts of the world. These could provide no stable basis for the prosperity of Asia and the Far East.

Food Supply: The average food consumption during 1950, though still below pre-war level, has significantly increased compared with previous years. Efforts have been made by several governments to bring about an improvement in the condition of the peasant cultivators by agrarian reform. The pressing problem of today is more effective utilisation of available resources.

In India, towards the end of 1950, famine conditions developed over wide tracts of the country, mainly on account of a series of calamities, including droughts and floods.

Industry and Mining: Compared with 1949, production in 1950 generally showed an increase, with the significant exception of cotton and jute textiles in India. Japan's recovery in 1950 has been considerable. However, industrial production in Japan is still well below pre-war for several items (coal, steel, cement, cotton yarn and cotton goods), while there have been increases above the pre-war level in production of electricity, iron ore, pig iron and sulphuric acid. The increases in production of electric power in several countries were remarkable. In 1950, electric power production in the Philippines was twice that of 1938. India showed an increase of 102 per cent over pre-war; Ceylon 161 per cent.; and Thailand and Japan 56 per cent. and 57 per cent.

Transport: There was a marked improvement in transport facilities in 1950 in Burma, China and Indonesia.

The British Commonwealth countries in the region have allocated for improvement in transport and communications more than one-third of the expenditures under the Colombo Plan. Nearly one half of the region's machinery imports in 1949 and 1950 consisted of transport equipment, including railway stock and locomotives. However, operating efficiency is still unsatisfactory and pre-war standards of maintenance have not yet been regained.

In China the railway system has now been basically restored to pre-war standards. Throughout the region there have been increases in road traffic, and inland water traffic. Major improvements to ports have been effected.

Continued Budgetary Deficits: Government finances in Eastern

From Economic Survey of Asia and the Far East 1950, United Nations, September, 1951

countries are still dominated by deficits exercising pressure on prices. But current expenditures cannot be reduced below a certain level, and capital expenditure programmes involve outlays in excess of current savings. Inflationary pressures have been greatly increased by the money incomes from export surpluses. To check inflation and mobilise funds for investment, many governments have sought to increase their revenue from taxation, and have encouraged private investment by offering tax reductions and relief to new enterprises. The low level of private domestic investment is accompanied by a low level of private investment from abroad.

Export Surplus: In 1950, exports of the region in terms of dollars (excluding China, British Borneo, Nepal and Korea) rose by 21 per cent., while imports fell by 12 per cent. (The most marked was the decline of imports from the United States, which fell by about 35 per cent.). This caused an export surplus of $847 million as compared with an import surplus of $800 million in 1949. The region's pre-war export surplus thus re-emerged for the first time since the war. The terms of trade have turned in the favour of most countries, although the degree of gain cannot be accurately measured.

Korea and Japan's Export Trade: Japanese exports increased by 150 per cent. between 1948 and the first half of 1950, mainly because of an increase in textile exports. The Korean war gave a great impetus to Japanese exports; in 1950 there was a considerable export surplus, if imports received under United States aid are not counted. Export controls in the United States may reduce the availability of these imports, and is liable to check Japan's expansion of production. With the stoppage of trade with the mainland of China, Japan's supplies of iron ore and coking coal will also be curtailed.

Effect of U.S. Defence Programme: The trade of the whole region is affected largely by changes in the United States. The recent stock-piling and rearmament boom in the United States have had a pronounced influence on the economies of the region.

Export Boom Unlikely to Continue: The principal beneficiaries of the export boom are the largest exporters of those raw materials which are most in demand and prices of which have increased most. Thus Malaya and Indonesia, which are large rubber and tin exporters, have gained most and, at present prices, are likely to continue to gain most, while India and Burma have gained least. The size of the export surplus has been determined also by the decline in imports. While many non-essential imports were eliminated, the decline in imports for economic development was also marked. Any reasonable rate of economic development in the countries of the region would not only absorb the entire export surplus but would turn it again to a substantial import surplus.

Importance of External Aid: During 1950, external aid was furnished to the region by the United Nations agencies, the United States, the British Commonwealth and certain other countries. Although the total amount of aid from all such sources was small in relation to the needs of the region, it nevertheless served effectively to stimulate development activities in the region.

Missing Industrial Statistics

By JOHN RYAN, C.B.E.

1. *Capital*: One only needs to consider the wide range of statistics available about labour, unemployment, absenteeism, etc., and compare it with the almost complete absence of statistics in the capital field to appreciate the extent of the gap. It is for this reason that I welcome the results of the sample enquiry into Capital Expenditure in 1948 and 1949 incorporated into the White Paper on National Income and Expenditure.

These figures, of course, relate solely to capital expenditure in the past. Of more value to the industrial economist would be an analysis of the capital commitments which industries have undertaken for the future. This was actually recommended by the Nelson Committee in 1945.

While this recent enquiry has increased our knowledge of the distribution of gross capital formation as between industries there are still substantial gaps in our knowledge of how it is financed by the Government and other public authorities, or by private companies (either by depreciation provisions or by the allocation of undistributed profits), or by the personal savings of the general public.

This latter source, being the marginal source as far as private industry is concerned, is of considerable importance.

A relevant figure (Gross Personal Savings) in the White Paper on National Income and Expenditure appears to be a balancing one and has no reality of its own and in fact is subject to substantial revision from year to year. The figure for 1948, for instance, is shown in successive White Papers as £220, £409 and £317 millions.

There is a real need for the publication of figures of personal savings sufficiently accurate to permit of their being used with confidence by industrial economists. We are still, moreover, almost entirely devoid of information on the total amount of capital in existence and its distribution between various industries.

2. *End uses of basic raw materials*: This information is more vital in this cold war than it was from 1939 to 1945. Then, the Government exercised control over the materials and it was on their own behalf that materials were almost exclusively used—now, although the Government exercises the control, materials are still mainly used by private firms for private purposes.

As a first step I suggest that when the results of the 1948 Census of Production are consolidated, the Board of Trade should tabulate an analysis by consuming trades of the major raw materials in the "Purchases" section.

3. *Distribution, personal expenditure and prices*: The main gap, in my opinion is the complete absence of any kind of reliable cost data at all. Distributive margins for most goods appear to be fixed entirely on a traditional basis—whether or not, for any particular product, they bear any relation to the actual cost

From Paper to the Association of Incorporated Statisticians, Balliol College, Oxford, September, 1951

of distribution is problematical—there is certainly no statistical basis for the majority of them.

4. *Index of retail sales*: There appears to be a general mistrust of the present two indices of sales, *i.e.*, sales by large-scale retailers and by independents. The Board of Trade are aware of the limitations of these indices whose weights have had to be estimated rather than based on known data for a base-year.

5. *Variations in stocks*: We need some measure of both manufacturers' stocks and stocks in the pipe-line of distribution, and, where it has significance, work-in-progress.

6. *Wage Differentials*: Some wage agreements provide for the payment of different rates in different parts of the country—for instance, a higher rate in the London area. Such differentials have in the past had no statistical basis and I hope the forthcoming Survey of Consumer Expenditure may give us some form of regional breakdown to tell us whether or not expenditure patterns are uniform throughout the country.

7. *Short-term movements in personal disposable incomes*: Annual figures are, of course, published in the White Paper on National Income and Expenditure and quarterly estimates have been published by the Oxford Institute of Statistics, but under present conditions statistics for a calendar year published in the following April have only an historical value. We need quarterly figures compiled not by an unofficial body, valuable though the Oxford figures have been, but supported by the resources of the Central Statistical Office.

8. *Savings*: We have figures of National Savings, Post Office Deposits, Endowment Insurance Premiums and money invested in Building Societies, etc. What we chiefly lack is knowledge of how these savings are spread throughout the community. How they vary within each income group, and whether the lower income groups regard savings purely as a short-term matter (*e.g.*, saving for a summer holiday) or not.

9. *Consumer credit transactions*: Hire purchase is very much more widespread in the U.S.A. than here, and there, statistics are published by the Department of Commerce. In the U.K. there were signs of a substantial increase in hire purchase trading in 1949 and early 1950 but there was no measuring rod with which to measure it.

10. *Labour Turnover*: The Ministry of Labour publish an analysis by trades but this fails to answer such a problem as "Why do people leave one job and go to another?" and it fails to reveal whether the high labour turnover rate is due to a relatively small "floating population" who take several jobs in quick succession or whether there is a substantial turnover of fully-trained operatives who have been in one job for some years.

AVOIDING EXHAUSTION OF E.P.U. CREDITS

A proposal made recently from Paris suggests that if E.P.U. credit balances were made marketable at a disagio of 5 to 15 per cent., capitalist groups would often find such opportunities tempting. The Netherlands for example might use dollars earned in trade with countries outside E.P.U. to reduce her deficit with Belgium, thus taking advantage of the disagio offered to help relieve the embarrassment of Belgium.

New York Times, September 24, 1951

Criteria of Wage Determination

By C. W. Guillebaud, C.B.E.
(St. John's College, Cambridge)

So long as inflation continues, a centralised policy of wage stabilisation is impossible; as soon as inflation ceases it will be unnecessary

Since the beginning of 1951, wages have been rising to an extent which is causing widespread concern.

It is not surprising that there should be talk of the need for a planned or centralised wages policy to take the place of the present completely haphazard and chaotic practice, where no attempt is being made to relate wage claims to what is desirable in the national interest.

From the economic point of view the most interesting and authoritative of the proposals that have been put forward is that, on the basis of an estimate of the national income for the coming year, and of the share in it that could be made available for wages without adding to inflationary pressure, an aggregate wage budget should be drawn up for the succeeding 12 months.

Let us assume for the moment that this is agreed upon. Wages are running at a total of say £5,000 million, salaries at £3,000 million, and there is a sum of let us say £300 million in all that can be used for granting wage and salary increases during the coming 12 months. Some centralised machinery would then have to be responsible for allocating this total sum amongst the various claimants in accordance with what is equitable and in the national interest.

Increase in Productivity?

Increase in productivity per head might seem an obvious criterion. But in a great many occupations it is not readily measureable, yet those employed there may regard themselves for other reasons as equally entitled to an increase. The rise in productivity may also be mainly due to a larger amount of capital per worker.

Again, increases in productivity might well be greatest in industries, such as the armament industries, which contribute nothing to the supply of wage goods on which real wages depend, and where in any case through piece work, production bonuses etc., a larger output is automatically accompanied by higher earnings.

The productivity criterion also does nothing to solve the difficulty of differentials within an industry—the claims of the lower paid workers on the ground that they are hardest hit by the rise in the cost of living, and the claims of the skilled workers that their greater skill and responsibility are not being adequately recognised.

Capacity to Pay?

Capacity to pay is certainly one of the relevant criteria in wage determination in normal times, though even then it requires to be carefully handled. But in a time of inflationary pressure it could be extraordinarily misleading.

High gross profits are an inevitable concomitant of inflation, and I could not imagine a wage policy being usefully related to them. Moreover, capacity to pay may well be least in some of the export industries where more labour is most needed.

From Centenary Lecture, Ministry of Labour September 13, 1951

The condition of being undermanned as a justification for higher wages would not take one far. Coal, certain textiles and perhaps agriculture would, I suppose, have a strong case. But for the rest, nearly all industries are short of labour, especially of juveniles, and working conditions are often more important than relative wages, unless rates are pushed up very high indeed.

If there are no criteria which would not be, in a large measure arbitrary, and incapable of explanation and justification to the ordinary wage-earner, that alone would seem to rule out of court a wages policy on these lines.

Central Body Required

But any form of planned wages policy must imply some central body in whose hands the duty of making decisions or recommendations rests —and in *this* country that raises almost insuperable difficulties.

I rule out the Government for obvious reasons.

I find it hard to believe that the T.U.C., either with or without expert economic assistance and advice, would be acceptable to the Trade Unions, whose leaders depend for their prestige and their membership so largely upon their bargaining powers.

But if we look for a moment abroad, at certain foreign countries, we do find arrangements which have some claim to the title of a wages policy.

Looking Abroad

In the Scandinavian countries there is a tradition of rather close co-operation between the central organisations of both employers and trade unions: and these central bodies have much more authority over their members than in this country. It has been possible therefore to control and co-ordinate wage increases, in a rough and ready sort of way which at any rate works a good deal better than the type of competitive increases which we see in the U.K.

In Holland the general level of wages throughout the country is fixed by the State, and there is a very interesting system of job evaluation by points to determine the wages of the different categories of labour within each industry.

In the United States wages were restrained to a considerable extent during the war by a Government Wage Stabilisation Board, which has now been resuscitated to deal with wages in the defence industries. This affords an interesting example of the different attitudes of British and American labour as to what constitutes freedom in the economic sphere. In the United States the Unions would not hear of the direction of labour during the war, but they accepted the principle of wage stabilisation. Here in Great Britain we rejected wage stabilisation, but accepted the direction of labour.

I cannot in any near future see any likelihood of the people of this country, whether employers, trade union officials or individual workers, being willing to allow a system of central planning for wages to be operated. Past traditions, the institutional framework, and the whole climate of opinion here, are against it.

Practical Policy

I venture, however, to make one practical suggestion. The Government should publish annually an estimate of the amount by which, in the opinion of their statistical experts, the total sum of wages and salaries could rise during the ensuing twelve months *without adding* to inflationary pressure. This

information would then be at the disposal of employers and trade unions alike, and might well exert some influence upon their policy.

Even without the adoption of any new system, I would like to see the *central* organisations of employers in this country bringing pressure to bear upon their members to resist excessive claims for wages, and the giving of wage increases in order to attract labour away from other firms; and, very importantly, that there should be a common *inter-industry* policy with regard to the conditions of labour other than wages — such matters as holidays with pay, hours of work, overtime rates, etc.

And I would like to see those Trade Unions, whose members are already high up in the wage scale, exercising a greater moderation in the amount and frequency of their wage demands. It is the big jumps in a few industries which do the harm, *and* the pushing up of wages where earnings are already high relatively to other industries.

Austria's Schilling Becomes Even Weaker

Vienna is doing big business at the cost of stability

IN MANY of those European countries which were most affected by the war, the steadying of the rate of exchange has been accomplished by more or less drastic measures. Economic reconstruction has thereby been based on sound money. But in Austria no-one has been able to decide to amputate the inflationary tail of the economic body all at once; it has been thought less painful to carry out the operation by instalments.

Since 1945 Austria has not had a devaluation as in Hungary or in Rumania, nor a thoroughgoing reform of the currency as in Germany. Instead, the country has been ruled by a creeping inflation, known there euphemistically as "money-dilution."

Wage-Price Ties

The problematic economic policy of the four-power government of Austria consists of price-wage pacts by which it believes it can control this rising spiral.

After five such agreements, the wholesale index stands at 795 (March 1938 = 100). Foodstuffs leapt from 586 to 713 after the last farm-price rise, and retail prices generally rose from 556 to 608.

These indices do not reflect the appreciable rises in indirect taxation and in the tariffs for rail-fares, postage, telephones, gas and electricity—that tail-end of the "permanent price-adaptations" with which "they" try to lighten the burdens of the consumers.

Altogether, wages are lagging behind: in Vienna they are 16.3% behind prices.

Credit Laisser-Faire

A corresponding inflation has naturally befallen the currency—the banknotes and the free-demand obligations of the National Bank.

In the middle of August the note issue rose 16% above the level of the middle of July. But when the credit institutions and outside banks are brought into the picture, the currency in the sense of total notes in issue was 13.5% above the level of the previous August.

Taking into account all notes, demand obligations and the torrent of credit, the total purchasing power released rose 47% in the year August 1950—August 1951. A warning light good enough for anyone.

From Handelsblatt, Dusseldorf, 7 September 1951

Africa's Formidable Variety of Problems

Migrant Labour—Undernourished Peoples—Monocultures—Soil and Forest Erosion—Lack of Capital—Pressure on land

DESPITE COMPLAINTS OF shortage of labour in Africa, the wages of Africans have remained relatively static. Since 1939 nominal wages have risen with the rise in general prices, resulting in some cases in improvements in living standards, but general wage levels are still extremely low.

That wage rates have not risen more is explained by the fact that African wage earners are serving two economic systems. An increasing supply of non-seasonal migrant workers accept work for wages on a temporary basis; this supply has been maintained by the pressure of growing populations on the resources of land and simple techniques of cultivation, and by the need for income both to pay taxes and to obtain trade commodities. Export industries were built up on this low-priced labour, which enables these industries to compete in world markets. The use of migrant labour to avoid the costs of a permanent labour force has been favoured by the development of export industries, particularly of mining, in remote areas where public utilities do not exist. The practice of recruiting labour over wide areas through large recruiting organisations has often reduced the competition of employers for labour, at the same time increasing the supply, which did not become exhausted because of the existence of a large mass of subsistence agriculturists.

Ignorance is Weakness

African workers are in a weak bargaining position, since they have few alternatives and in general have no precise knowledge of opportunities for employment in places far from their homes. So long as economic activities are considered to depend on low-wage migrant labour and so long as the supply of such labour is forthcoming, the low-wage structure tends to be perpetuated.

In Africa south of the Sahara, administrations have been faced with this double problem: the need to develop labour incentives normal in an exchange economy, and the consequences of the disruption brought about in African society by its increasing contacts with the world economy. Since a profound disruption of African tribal life is inevitable, the problem of replacing what is breaking down with institutions more suited to the new economic environment faces every administration.

Where the disruption is substantial, it has already become necessary to attempt to build up a more normal type of labour force. In the Belgian Congo, for example, the Government has applied restrictions on recruitment of labour, and the mining companies have provided the necessary amenities for permanent residence of workers and have set up training facilities. On a smaller scale similar developments have taken place in the mining areas of Northern Rhodesia.

From Review of Economic Conditions in Africa, Supplement to World Economic Report 1949-50, United Nations

In the Union of South Africa, where industrial production has developed on a large scale, there is an increasing volume of permanently urbanised labour in industry and commerce at wage rates appreciably higher than those in similar employment elsewhere. Practically all African labour in the mines is recruited migrant labour and skilled work is performed almost entirely by European workers.

But secondary industries require for their efficient operation a stable labour supply. Hence, both in private industry and in the Government steel-works at Vereeniging, for example, provision is made to attract and retain a stable labour force of both Europeans and non-Europeans.

Migrant labour is relatively inefficient for several reasons. The labour turnover is exceptionally high. An enormous amount of time is wasted in travelling, much of which is done on foot over great distances, in conditions which have bad effects on health. The discontinuous nature of employment results in loss of efficiency owing to the need for some retraining or readjustment after prolonged absence. It makes difficult, if not impossible, the acquisition of skill.

The migrant labour system has grown up in Africa as part of the progress of development from a subsistence to an exchange economy, but in the resulting state of hesitancy between two forms of economic life, African labour has been slow to develop the efficiency of which it is potentially capable.

Food Problem

It is important to note the vulnerability of the food subsistence sector of Africa to drought. It is also certain that much of the population is badly nourished and undernourished. The F.A.O. has reported that African diets "remain among the lowest in the world."

With present techniques, and with increase in population, the maintenance of balance between food and non-food production is a problem which confronts African territories with varying degrees of intensity. Thus in Southern Rhodesia increased production of tobacco may have resulted in some withdrawal of productive factors from domestic foodstuffs. Between 1939 and 1949 the population increased by about 38 per cent. The output of tobacco nearly trebled, while the production of wheat, maize (an important staple) and citrus all declined.

Many territories depend heavily on a single crop for the principle part of their exports. In Gambia, ground-nuts make up 97 per cent of exports; on Mauritius, sugar-cane makes up 95 per cent.; Liberia depends on rubber for 90 per cent.; Northern Rhodesia on copper for 85 per cent.; the Anglo-Egyptian Sudan on cotton for 72 per cent.

Compared with pre-war, the commodities which exhibit the greatest increase in production in Africa as a whole are pulses, coffee, tea, tobacco and rubber. The output of maize has fluctuated considerably. In a few territories, like Kenya, production has shown an upward trend.

In 1948 the production of ground-nuts, the most important of Africa's vegetable oils, reached 129 per cent. of pre-war; of this French West Africa and Nigeria produced two-thirds.

In West Africa also is concentrated the production of cacao, of which two-fifths of world production comes from the Gold Coast and Togoland alone. Cacao is mainly a peasant crop. Production fell below pre-war averages from 1939 to 1947;

factors which contributed to this falling off were marketing difficulties, unfavourable weather and diseases — particularly "swollen-shoot," which has at times seemed to threaten the future both of the world's cacao supplies and of the whole Gold Coast economy. But in 1949 exports, estimated at 500,000 metric tons, exceeded the pre-war volume for the first time.

The production of tea is about 80 per cent. above pre-war level, but on balance the region is a deficit area, largely by reason of the large imports into northern and southern Africa.

Some 80 per cent. of African wine is produced in Algeria, and the most of the remainder in South Africa; post-war production has increased in the latter area, but a heavy drop has occurred in the former; impairment of the industry during the war has been particularly serious for Algeria, since wine accounts for nearly half of its exports.

Forest Products

Africa south of the Sahara, which contains about 10 per cent. of the world's accessible productive forests contributed about 3.5 per cent of the world output of roundwood in 1948. French Equatorial Africa, French West Africa and the French Cameroons are the chief exporting group.

The constant menace of dessication and the widespread erosion are intimately associated with the recession and deterioration of forest cover, for the removal of forest cover influences the climate, soil conservation and water resources more than anywhere else in the world. About 28 per cent. of the total land area of Africa, 849 million hectacres, consists of forested land. Nearly two-thirds of that area, however, consists of forests incapable of yielding products other than fuel or forest of slow growth or stunted form. Almost all African forests are of hardwood; less than one per cent is occupied by conifers.

Burning to clear the land and to provide potash for shifting agriculture, has contributed heavily to forest regression and deterioration in central Africa.

Livestock

The F.A.O. considers Africa "a major area of expansion of meat production over a period of time." In much of the continent, this expansion depends on the compaign against the tsetse fly and rinderpest.

Mining

Of a total external investment in Africa south of the Sahara of £1,222 million, about £260 million went into mining, and of this South Africa attracted two-thirds, putting half into gold mining.

Africa produces by far the greater part of the world's total of diamonds (98 per cent., mostly from the Congo); cobalt (80 per cent. again chiefly from the Congo) and gold (58.9 per cent. of the world excluding the U.S.S.R.).

Among the mining territories, Northern Rhodesia depends on minerals for 96 per cent. of her exports.

Summary

Africa as a whole is economically among the least developed areas of the world, with very low levels of production and consumption. A large proportion of the population is dependent upon subsistence agriculture carried on with backward techniques.

Investment in the developed part of the economy is concentrated on the production of primary products for export. Practically all of the

(Continued on page 516)

DIGEST BOOK REVIEW

"The Balance of Payments"

By PROFESSOR J. E. MEADE (London)

THIS VOLUME is the first of a series on the theory of economic policy, and is to be followed this autumn by a mathematical supplement. This supplement is, however, not absolutely necessary to the reading of the present book but what is necessary is an approach to economic theory similar to that of the chess player's approach to an advanced book on his subject.

The problems tackled are three: preservation of balance of payments between nations, maintenance of full employment domestically, and the reconciliation of the two ends. The methodology used is to suppose two nations A and B (it is pointed out that these need not mean necessarily America and Britain—they could mean "any country" and "the rest of the world"—but many of the examples will be simplified by adopting this mnemonic) and to trace the reactions on external balance and internal balance of a number of situations and actions.

The analogy with the chess problem lies in that this book does not deal with "one move" reactions, but attempts seriously to follow through to the *nth* move. At first, large assumptions are made to clear the field of theory, such as assuming a neutral economy (defined as an atmosphere of unchanging fiscal and monetary policy, constant wage-rates and exchange-rates and moderate free-trade). From this unrealistic beginning, the assumptions begin to fall away throughout the analysis, closer and closer approaching present conditions.

A great deal of the analysis depends on the measurement of the "propensity to import", connected with the elasticities of supply of exports and of demand for imports, and the most salutary effect of this book is to modify the sweeping statements put forward by many commentators as to the effect of price on overseas markets, the devaluation of currencies, and the terms of trade.

For example, "a depreciation of B's currency will always turn the real terms of trade against B, but will improve B's balance of trade if the sum of the elasticities of demand for imports in the two countries is greater than one . . . but it is *possible* that a depreciation of B's currency, in addition to improving B's balance of trade, will also move the terms of trade in B's favour.

"Two conditions must be fulfilled . . . to tend to lower the price of B's imports relatively to that of her exports. First, when a shift in demand in B takes place from foreign-trade to home-trade products" the shift must not be away from her export products which are also sold domestically; otherwise export prices will fall as fast as import prices. Second, there must be an increase in the supply of those products produced in B which compete with imports, rather than an

The Theory of International Economic Policy, Volume One, The Balance of Payments, Oxford University Press, London: 1951. 30/-.

increase in the supply of export products.

In order therefore for devaluation to turn the terms of trade in B's favour, her elasticity of supply of exports must be low and her elasticity of demand for imports relatively high.

Policy Conflicts

The effects of policy—both direct by means of devaluation and commodity and exchange controls and indirect by means of monetary policy—lead into an important chapter on conflicts of policy. Some policies while maintaining external balance deepen internal unbalance and vice versa.

For example, suppose "a spontaneous deflation of domestic expenditure in A which (i) deflates national income in A, (ii) deflates national income in B, and (iii) causes the balance of payments to move favourably to A and unfavourably to B. A policy inflation of domestic expenditure is needed in A both in the interest of internal balance . . . and also in the interests of external balance". No conflict therefore exists in A. But should A not act in this way, B is on the spot. For internal balance B should *inflate* internally in order to rid herself of the depression exported from A; for external balance B should *deflate* in order to restrict the demand for imports from A to the declining level of demand for B's exports in A.

While affording weapons for the armoury of economic warfare, this analysis does teach the lesson that to the two criteria observed by authorities (effect on national income and employment, and effect on balance of payment) when deciding on matters of policy, there must be added a third: the effect on the internal balance of the other country.

The book goes on to deal with the relative merits of price-adjustment, variable exchange-rates and wage flexibility as means of policy. This leads to a fresh consideration of the Gold Standard. The theory in general points to the virtues of adopting *either* a gold standard *or* variable exchange rates together with a free exchange market. The role of speculation in this free market is then considered.

The danger of speculation is seen to lie chiefly in that the speculators' judgment must be perfect for their operations to be salutary. Both wrong anticipation and excessive anticipation will exaggerate, not minimise, the adverse movements of prices. Speculators who judge that a currency will depreciate, and act thereon, drive an actual appreciation further and faster, and make the balance of payments problem worse. Similarly, although speculators may judge a depreciation correctly, over-estimation of the extent of depreciation as warranted by movements in real terms will lead to intensification of price fluctuations and additional burdens on the balance of payments.

"How can these dangers . . . be met without preventing useful speculation (*e.g.*, by exchange control over capital movements)? The most straightforward way to achieve this end is for the monetary authorities of one or the other country or of both in combination to offset undesirable private speculative movements . . . by means of movements of governmental funds in the opposite direction". This again, however, presupposes perfect foresight on the part of the monetary authorities.

Author's Views

The analysis is so masterly and comprehensive that this short review can give very little idea of the whole. The excerpts chosen are, we believe, representative of the style of the book, from which it will be seen that the author's views do not intrude.

But the concluding few paragraphs are a personal summing-up which is of interest:

"(To remove a balance of payments disequilibrium between countries) if possible, reliance should be placed on measures other than direct controls.

"First, there must be in each important country reasonably successful financial policies for internal balance.

"Secondly, there must be an international system (whether of the type of a free exchange market or of the type of an adjustable peg) for the variation of exchange rates on the principle that the currencies of surplus countries should be appreciated and those of deficit countries depreciated.

"Thirdly, any measures which may be taken for the protection of national industries . . . should take the form (*e.g.*, *ad valorem* import duties rather than rigid quantitative import restrictions) which effectively allow the adjustment of trade flows to subsequent alterations in price relationships."

Such a system, to be feasible, rests on a technical question—whether the elasticities of demand for imports are sufficiently great to operate price adjustments effectively; more statistical evidence is necessary on this point. It also rests on another premise: that every country starts with a reasonably adequate stock of gold or of other internationally acceptable means of payment.

Success in using the mechanism of money and prices for the achievement of external balance is worth the effort. Absence of the conditions to make such success possible, says the author, "will make inevitable a perpetual structure of direct trade controls . . . and it will be the chief purpose of Volume II to show how great can be the wastes of unnecessary obstacles to world trade."

A. B. C.

WILL THE HORSE STAGE A COME-BACK?

By M. E. TAYLOR

With the latest rise in fuel for internal combustion engines many arable farmers who regretted the passing of the horse have begun to prophesy that it will make a come-back. Horses have of late brought higher prices.

But the amount of grass consumed by a horse is no mean amount — in fact, at least two bullocks could be kept off the same amount. Twice as much dung would be spread in the process and a saleable article produced at the end.

Again, where are the horsemen to be found who would be able and willing to take on the arduous task of a seven-day week? Would they be content to see their tractor counterparts knocking off on a Saturday morning by the mere turn of an engine key?

A pair of horses look a picturesque sight, but it is to be remembered that a man with a pair of horses will take roughly a day and a half to roll a 25-acre field: the same field would be rolled by a tractor in 3½ hours.

From Farmer and Stock-Breeder, May 15-16, 1951

INTERNATIONAL MONETARY FUND EXPLAINS—

Why Premium Gold was Freed

IT WILL BE HELPFUL to see what the background was to the statement of June 1947 on premium gold transactions. The initial par values had only been recently agreed and were not yet tested under post-war conditions. Total dollar receipts from exports to the United States were running at a rate of about $5.5 billion a year. Monetary reserves outside the United States were declining rapidly. The payments difficulties that led to the Marshall Plan were already visible. In these circumstances the statement by the Fund helped to focus the attention of members on the dangers of an unrestricted flow of gold into hoards and was useful in limiting the supply of gold to premium markets. As world economic conditions improved in late 1949 and 1950, the flow of gold into hoards tended in fact to subside. Since Korea, however, it has again become larger.

Although the balance of payments and the reserves of many countries have improved considerably in the last two years, there are a number of countries in which payments difficulties persist. These difficulties are not as large or as widespread as those of four years ago. Because of these difficulties, the Fund believes that a sound gold and exchange policy by its members continues to require that to the maximum extent practicable, gold should be held in official reserves rather than go into private hoards. It is only in this way that the monetary authorities can use gold to meet balance of payments needs.

Drain into Private Hoards

The fund has been studying premium sales of gold and the drain on reserves caused by the absorbtion of gold into private hoards. We found that to reduce materially the volume of gold transactions at premium prices, many members would have to institute much more rigorous controls than they now have. And we found that the positions of different countries vary so widely that it would be impracticable to expect all members to take uniform measures to make the 1947 gold statement effective.

The new statement, therefore, affirms the belief of the Fund that to the maximum extent practicable gold should be held in official reserve rather than go into private hoards. The Fund urges its members to support this view. It is left to members, however, to decide on what practical operating measures they will take in this field. Each member will be the judge of just how and to what extent it will implement this statement.

With the new statement, members are not bound to any particular procedure for handling their external transactions in gold. They are not limited to the sale of any specific amount of gold or to any particular proportion of their newly-mined production.

Elimination Impossible

It may be that in a world of constant political disturbances, it is impossible to eliminate entirely private hoarding of gold. Nevertheless, our experience with the gold statement of 1947 leads to two con-

From Statement issued by International Monetary Fund, Washington, September 27, 1951

clusions. First, controls as such can have only a limited effect unless they are reinforced by appropriate domestic policies. In a period of acute difficulty, the imposition of strong controls to prevent premium gold transactions can be justified. But as time goes on, they gradually lose their effectiveness as means of evasion and avoidance are devised. When this happens, they cannot be made to work by asking countries to impose more and more onerous restrictions.

Second, the only dependable way to get rid of premium gold markets and private hoarding of gold is to create the economic conditions under which the private demand for gold will become negligible. In some countries, where gold is hoarded as a matter of tradition, the development of strong banks and sound financial institutions will encourage people to hold more of their savings in banks or securities or invest them in productive enterprises. In every country, the best way to reduce the demand for gold for private hoards is to follow budget and credit policies that will give people confidence in their currency. Nobody can have a good reason for hoarding gold or paying a premium for gold in a country in which the currency will remain stable in internal and external value.

The Fund will, of course, continue to study premium prices and gold hoarding. It will watch developments in these fields. It will consult with members on any problems that may arise. And it will, in this as in all other international payments problems, emphasize at every opportunity the fundamental importance of preventing inflation.

EUROPEAN CAPITAL FOR EUROPE

In the near future the financing of needful investments will become more and more the task of the European people themselves, since the U.S.A. by reason of its own rearmament programme must come to apply not only the surplus of private capital but also revenue from taxes almost entirely to its own economy.

Belgium, Sweden, Switzerland and the U.K. have granted public loans to OEEC states since the war to a total of $900 million (at values ruling before the devaluation of 1949). The most important borrowers were France and Holland. The Netherlands between 1945 and 1949 invested $522 million in its overseas territories alone. France invested $500 million in the same way. The U.K. has lent $750 million within the sterling zone, for the development of its overseas territories.

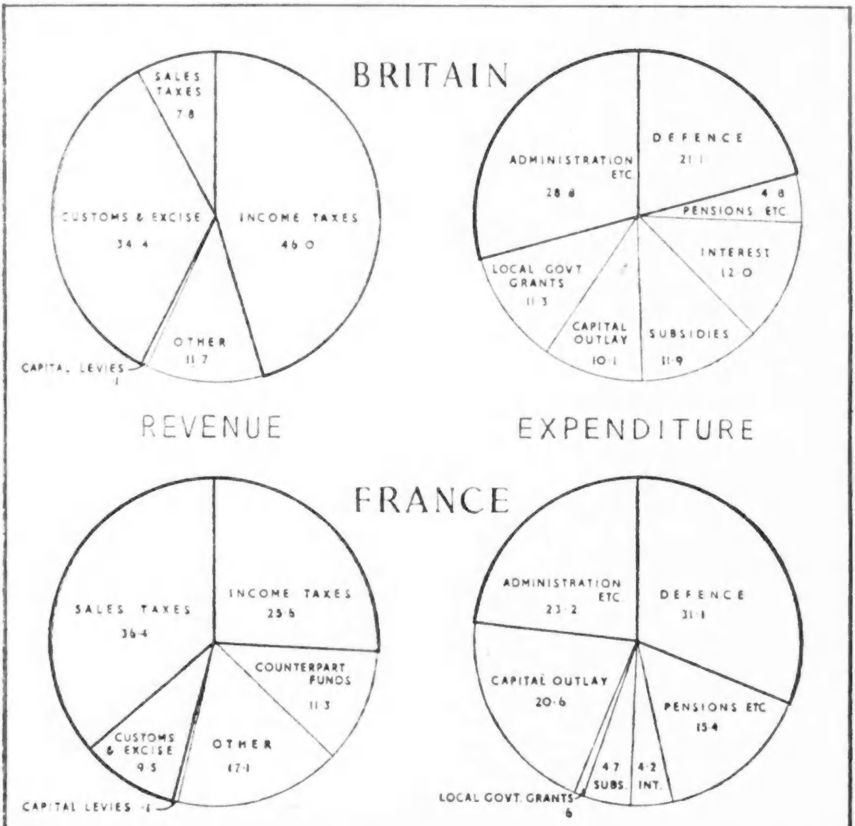
Private investment in Europe has considerably revived in 1950, by reason of issue of foreign loans placed on the Swiss market. Even before this a modest start had been made with three Swiss loans of 50 million Swiss francs each for the benefit of Belgian railways and Belgian postal authorities carrying a State guarantee. In 1950 four loans to a total of 210 million Swiss francs were issued on the Swiss capital market by a Belgian industrial finance corporation, by the Congo Belge authorities, by the Dutch Government and by a South African private company. In addition to these operations, the Swiss banks have made arrangements for investment involving about 196 million francs in private companies in Denmark, France, Italy and Holland.

O.E.E.C. Report, Paris, September 1951

UNION NOW IN

Unification of Europe has long been recognised as politically urgent. The formidable economic problems involved, however, have always been greatly under-rated both by expert and popular opinion in U.S.A. One of the main objectives of Marshall aid, as Americans saw it, was the federation of Western Europe on the U.S. model.

It is interesting therefore that the following diagrams, illustrating the fiscal structure of four of the proposed partners in a European federation, come from Washington and from the Marshall aid administration itself.

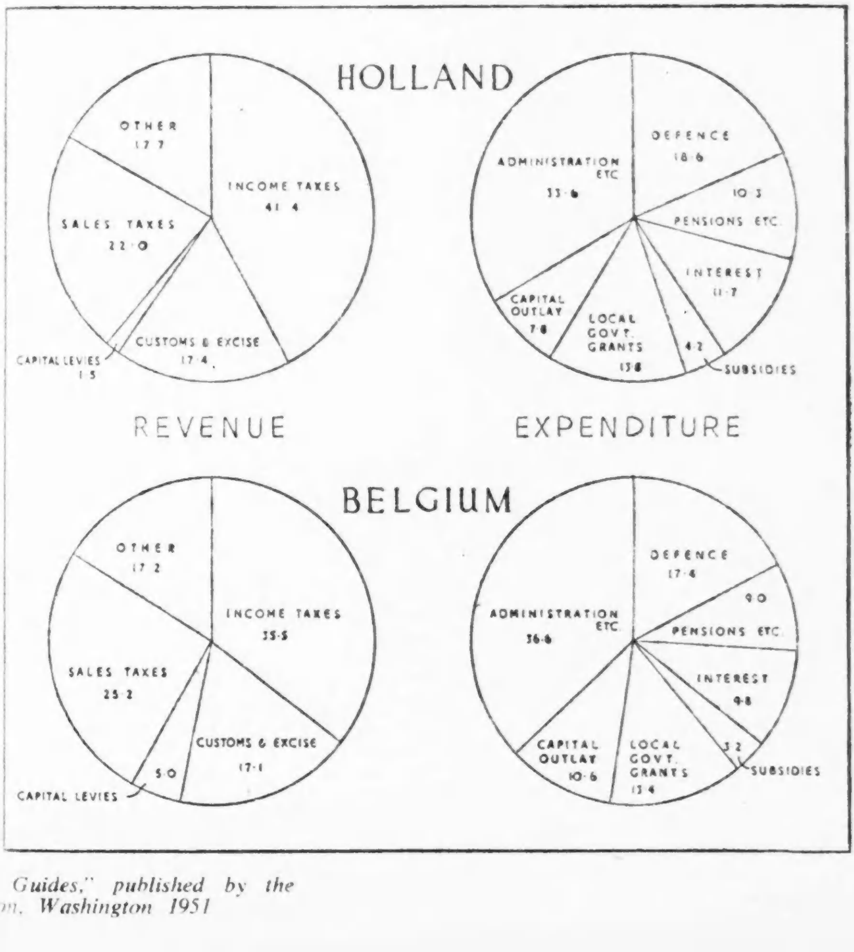


From "Charts and Tables fro
Economic Co-operation

OW IN EUROPE?

The patterns are at considerable variance with one another. Yet none can be easily changed in any significant way, because they reflect profound social differences. For instance, Britain can and does sustain a much higher rate of direct taxation than has proved practicable in France where, therefore, high indirect taxes and revenue-raising duties are the practice.

The diagrams emphasise the wisdom of the patient and painstaking approach of the European Movement and the Economic League for European Co-operation, which has produced at least one piece of useful machinery in the European Payments Union.



...bles fro... Guides," published by the ...peration ...ion, Washington 1951

Balanced Budget Controversy

How the parties, for and against, line up after fifteen years' argument.

SINCE 1936, the demand for a balanced budget has been under attack by the new Keynesian economists, using as their main weapon the multiplier. This move called forth defence and counter-attack by the opposite camp. In this rather lively discussion, the protagonists in America for a balanced budget are H. Lutz and the Committee on Post-war Tax policy; the leaders on the other side are Alvin Hansen, Taylor, and Arthur Smithies.

This table of pros and cons shows the divergences in dealing with problems of public finance. It seems more than doubtful that any agreement can be reached. These divergencies are not rooted in the problems of public finances, however, but in the causes and functions of business cycles.

(A) *Against balanced budget*	(B) *For balanced budget*
(1) It is the first goal of fiscal policy to keep full employment.	(1) It is not the first goal of financial policy to prevent unemployment. Public intervention cannot prevent unemployment. Unemployment is due to the rigid wage policy of the unions.
(2) Full employment will not be reached by the self adjusting mechanism of private economics.	(2) Full employment can be reached without government interference, by an elastic management of wages. (Low wages in depression, high wages in prosperity.)
(3) Depression and booms can be prevented or at least mitigated by government intervention.	(3) The circle of depression and boom cannot be prevented by government interference. Economic progress is connected with depression and boom. Only a completely stationary economy can exist without business cycles. A completely stationary economy would prevent any improvement in the standard of living.
(4) Depressions are due to lack of consumers' demand caused by the inelasticity of the marginal propensity to consume, or what means the same, by oversaving.	(4) Underconsumption or oversaving is only one of the possible causes of a crisis. There is no agreement about the correct interpretation of business-cycles. Explanations vary widely as far as facts and their interpretations are concerned.
(5) If in times of depression, government is spending more than it is receiving, it can abolish depression by creating new private revenues with the multiplier.	(5) Recovery will start with the help of cost-reduction. Deficit spending will prolong depression by preventing the necessary adjustment of costs in the depression.

From 'Recent Developments in American Economic Thinking,' by Professor Emil Kauder, Weltwirtschaftliches Archiv, Kiel, Band 66, Heft 2, 1951

(6) It is advisable to float new loans during the depression. Public loans are by no means dangerous.
(a) The nation as a whole is not burdened by domestic public loan. All the citizens pay themselves the interest and the amortization of the loan. If everybody owns public loans, everybody gets the interest and pays for it a more or less equivalent amount of taxes. So the tax burden and the interest payment are balancing.
(b) Public loans are more secure than private investment.

(6) (a) It is not necessary for the tax-payer and the investor in public funds to be the same and identical persons. In real life it very often happens that a person pays high taxes and carries very few or no government bonds.
(b) It is possible that government bonds are more secure investment than private loans or shares. But only a small amount of public bonds can be kept on a secure level. Besides, a high amount of government loans prevents the investor from putting his money into private enterprise.

RETURN OF THE TURNPIKE

The 118-mile New Jersey Turnpike, being built from Wilmington on the west of Philadelphia to New York city, will be completed soon after Christmas 1951. The charge for driving a car its full length will probably be $1.75 (12s. 6d.). The first of the revived toll roads was the Pennsylvania Turnpike opened in 1944, on which one may drive from Philadelphia to Pittsburg, a matter of 260 miles, at a charge of $2.50 (almost 18s.).

Altogether some 2,000 miles of toll roads are planned; many States have decided that a return to the turnpike is the only answer to the high cost of construction of modern super-highways.

Traffic Quarterly, Saugatuck, Connecticut, U.S.A., July, 1951

Foot-note: Turnpike era in the U.S. began in 1794, first toll road being from Philadelphia to Lancaster. It merged into local and State utility building in the 1820's. First Turnpike Act in Britain was passed in 1663, but movement gathered momentum in 1760.

BRITAIN ANSWERS PURCHASE TAX COMPLAINTS AT GATT

In the November 1950 Session of the General Agreement on Tariffs and Trade at Torquay, several governments including Holland, Canada, France and Italy, complained that British purchase tax imposed on imported goods which were in competition with the Utility range (not subject to the tax) was in fact affording protection to British home industries in addition to that provided by the tariff.

Sir Hartley Shawcross at the recent Session of GATT said that the U.K. regretted the discriminatory affects of the tax, and that a committee was seeking a revision of the whole system. This committee was unlikely however to complete its work before the early months of 1952.

Board of Trade Journal, September 29, 1951

INDIA'S SURPLUS IN TRADE WITH U.K.

Imports into India from the United Kingdom in the seven months of this year were valued at £66.2 million, nearly £14 million more than the same period last year. Machinery imports accounted for £19.8 million, vehicles for £13.5 million, electrical goods and apparatus for £4.2 million, and chemicals, drugs, dyes and colours for £6.1 million. Exports from India to the United Kingdom from January to July 1951 totalled £85.8 million, £31.3 million above last year. Major items of export were : tea 22.8 million, jute manufactures £6.8 million, and leather manufactures £13.1 million.

Eastern Economist, September 21, 1951

Five Million Europeans Ready to Emigrate

IF MIGRATION ALONE were to eliminate Europe's over-population, it is estimated that one million persons a year for five years would have to leave the Continent. This estimate does not include potential emigrants from the United Kingdom and France.

The Italian Government, for example, indicated to the Council of Europe a surplus population of three million and placed the essential minimum annual emigration rate at 450,000 to 480,000 persons. Available figures indicate, however, that during 1950 a total of 134,827 actually left Italy. Estimates for Germany vary from 150,000 to more than one million persons available for permanent emigration.

The United Kingdom was not included in the overall estimates, but about half a million persons emigrated from the United Kingdom from the end of the war until the spring of 1950 and nearly the same number entered from the Continent.

Among the countries seeking new citizens, Australia has announced an annual target of 200,000 immigrants a year for at least five years, mostly British, Dutch, Italian and German. Canada has an announced goal of 150,000 immigrants, including American, British and French, although actual admission from 1948 to 1950 averaged less than 100,000 a year, with 73,000 admitted in 1950.

Israel seeks to maintain an annual immigration rate of 200,000 for the next three years; in 1949, some 239,000 entered Israel.

Under the United States Displaced Persons Act 341,000 persons from Germany, Greece, Italy and Trieste are eligible for admission. Additional immigrants, who are not displaced persons, may enter from European countries under regular immigration procedures.

Limited admissions are also made by New Zealand, South Africa and Rhodesia.

Unofficial information indicates that Argentina admitted 154,000 immigrants in 1948, 149,000 in 1949 and may be expected to admit some 150,000 annually. Brazil, Chile and Uruguay are reported favourable to immigration but not in large numbers. Immigration to Bolivia, Colombia, the Dominican Republic, Ecuador, Paraguay and Peru is also likely to be limited.

Most are Refugees

More than half of the 600,000 persons who actually emigrated from Europe in 1949 were refugees, whose travel costs were taken care of by international sources of funds. Of the other 300,000, at least a quarter were actively assisted by relatives.

Governments should give high priority to migration and methods of financing it within the framework of national economic policies, and budget for such essentials as housing arrangements at ports, special shipping and low-cost chartering of aircraft, subsidies to

From "Methods of International Financing of European Emigration," United Nations, August 1951

migrants to reduce transport costs overseas, parfial or full payment of passage under free or assisted passage schemes or arrangements under bilateral agreements, assisting the financing of supervised migration associations or settlement agencies.

These countries also might liberalise requirements for payment of passports and other migration documentation, and ease export restrictions on household equipment, livestock or machinery used by migrants in their occupations.

Governments also could help reduce costs by obtaining technical assistance in financing migration.

Agreements should be encouraged between two countries making available low-cost transport facilities, technical assistance in specific migration projects requiring financial aid, and providing grants or long-term loans at low interest rates to facilitate migration.

The Economic and Social Council might choose to set up a single international organisation to assume responsibility in financing migration. Such an agency could co-ordinate financing activities such as loans by the International Bank for Reconstruction and Development. The Bank recently made a loan of $100 million to Australia for a development programme which contemplates employment of immigrants.

GERMAN REFUGEE PROBLEM

Of the Federal Republic's 47.6 million inhabitants, 9.4 million, or nearly one in every five, are people who were not living there before the war. Of these latter, 7.5 million are *Vertriebenen* or Germans evicted from the territories outside the four occupied zones of Germany; 1.6 million are people who have come over the border from the Soviet zone. This last figure continues to grow at the rate of about 200,000 a year. The Germans certainly exaggerate when they depict an entire community verging on despair; unemployment among refugees is 5 per cent.

Economist, September 15, 1951

I.L.O. MIGRATION SCHEME

At the Naples conference of the International Labour Office, a new organisation is proposed which will transfer 1,700,000 people from over-populated parts of Europe overseas. Planned for the first year is a transfer of 200,000 at a cost of $35 million; beside this must be set the calculation of the International Refugee Organisation that the cost of settling one person is $276. The I.R.O. also state that the U.S.A. could absorb 535,000 migrants a year.

I.L.O., October 2, 1951

£1,000 MILLION FOR WAR DAMAGE

The War Damage Commission in Britain have paid out £1,000 million since April 1947 when they made the first payment. Contributions by property owners totalled £198 million.

Some 3,420,000 buildings were damaged or destroyed by enemy action in Great Britain and Northern Ireland; over 40 per cent were in the Greater London area, and about 18 in every 19 buildings were houses. Of the total payments, £705 million was for houses, £84 million for factories, £67 million for commercial buildings such as warehouses, £37 million for shops, £24 million for offices, £12 million for hotels and licensed premises, and £8.5 million for churches.

Board of Trade Journal, September 15, 1951

Land Tenure Reform for Under-Developed Countries

The Pressing Need in Point-Four Programmes

THE PROBLEM OF the under-developed countries is the problem of poor farmers. Of the total world population about half (over 1000 million) come into this category. In Europe one person out of three is dependent on agriculture, but the yield per person is nearly nine-tenths of a ton annually; in Asia and Africa three out of four persons depend on the land, but the yield is a quarter of a ton per person in Asia, and only one eighth of a ton per person in Africa. These differences are chiefly a function of the density of farm population coupled with the lower yield per acre.

In the U.S.A. or England a 75-acre farm would be considered small; in Asia, where the average farm is 2½ acres, it would be considered large. Although differences in the intensity of cultivation must be allowed for, in many countries most of the farms are too small to provide subsistence minima for the cultivator and his family, and therefore to permit of any improvement in methods.

The low productivity per acre in these countries has many causes: poor soil, bad climate, backward technique and lack of equipment, high density of population and low prices. But one of the most important factors is the agrarian structure: the systems of land tenure, the division of product between tenant and owner, the organisation of credit and marketing, the burdens of taxation and the provision (if any) of technical advice and education, health services, water supplies and communications.

Tenancy

The proportion of tenants to the number of farmers is high in the whole of Asia, and in parts of South America; moreover, the tenancy system is accompanied by exorbitant rents and lack of security of tenure. A common form of rent payment in Asia is share-cropping; a typical scheme is half to the owner and half to the cultivator, the latter providing animals, the former some or all of the seed. In irrigation areas, the owner may also provide water free. Share rents are lower in Latin America. Payment in fixed amounts of produce, or in sums of money, are rare.

From the tenant's standpoint, fixed rents are preferable, since he has an incentive to increase production, gaining the full benefit of any improvement. He does, however, take the entire burden of risk. Also, fixed rents are usually high; in Madras and Egypt extremely so, reaching the level of half the market value of the crops, the tenant bearing all cultivation expenses.

In some parts of South America, labour rents are common, whereby the tenant receives small parcels of land in return for unpaid periods of work.

Insecurity of tenure is the rule in all undeveloped areas; custom and not legal agreement are the bases. In some countries of the Middle East, plots are redistributed among ten-

From Report of Defects in Agrarian Structure as Obstacles to Economic Development, United Nations Economic and Social Council, June 1951

ants from year to year; the erstwhile tenant will therefore seek to get the most out of his current plot, without regard to the maintenance of fertility.

Obstacle to Progress

These systems militate against improvement, and mean that the existence of large-scale property-ownership does not lead to the advantages of large-scale operation. Landowners are not interested in maintaining fertility, let alone increasing it, but in holding wealth in a secure form.

In Latin America, South-East Asia and parts of East Africa, the agrarian structure is dominated by large estates, centrally managed and employing paid labour, varying in organisation from the cattle ranch using much land and little labour to the plantation using less land and more labour.

The *latifundia* of Latin America, constituting about half of all agricultural land, are based on extensive cultivation or herding. One effect is that production is not adjusted to the demand for food, particularly those of high nutritional value—market garden produce, and dairy produce.

At the opposite end of the scale are the *minifundia*, excessive parcelization of the land, preventing efficient land-use. More medium-sized farms are required in the interests of production, but the chief obstacle is shortage of capital which prevents the small farmer from adding to his holding. Some movement this way is however occurring in Brazil, where the older coffee plantations are selling off surplus plots.

Where the large estate is cultivated intensively, as in the sugar islands of the West Indies, fragmentation of the estates would lead to a decline in yields, unless the small farmer were given technical aid and credit. Attempts have been made to limit the size of corporate holdings with only small success. The arguments against the large intensive estate are chiefly social and political, since they have given rise to labour troubles manifested in arson and all forms of social upheaval.

Communal Tenure

In regions where communal tenure has existed (Middle East, South-East Asia and India), the disintegation of the system has led to many frictions over title, and in some areas has led to wholesale expropriation by large landowners, reducing cultivators to tenants. In Iraq, for instance, the sheiks took the tribal land as private property. In other regions the result has been over-parcelization.

The breaking up of the communal system has been mainly due to the profits to be made in certain cash crops, such as cocoa in West Africa and cotton in Uganda. These requiring more labour per area than under the shifting cultivation of communal ownership, large numbers of the native population have been reduced to wage-earners, and their number has been supplemented by migrant workers.

The disadvantages of migrant workers are summarised elsewhere in this issue. But the effect on the economy as a whole is in the decline in the area devoted to local food crops.

In other parts of Africa (South Africa, Kenya and Northern Rhodesia) the nature of communal tenure was misunderstood by the early Europeans. Land seemingly vacant was actually part of the shifting cultivation pattern of the natives, and alienation took place

in ignorance. The result has been that the reserves set aside for the natives are insufficient for their support. Governments have so far left the communal system untouched inside these reserves, but unless aid in improving the technique of the native is forthcoming, such a system is doomed. And its extinction will lead to further migrant workers leaving the reserves.

Government Policy

The relatively high price of primary produce in recent years has quickened the tempo of change. Governments have set up marketing and control boards, have provided for the registration of titles to land, and in some places (notably in French West Africa and in the Gezira of the Sudan) have incepted large-scale schemes for assisted production in which the local cultivator is given or retains freehold rights to the land.

No small part of enlightened governmental policy has been the supply of cheap credit, because high interest rates and heavy burdens of debt are a characteristic of underdeveloped areas; credit shortage is both the cause and the effect of poverty. The unsuitability of existing credit agencies is a major obstacle to the expansion of output on small farms, since these agencies are more adapted to meet the needs of large industrial or plantation concerns. The long production period in agriculture tends to eliminate the ordinary commercial banks as direct sources of farm credit.

Moneylenders' Avarice

Small-farm credit is in the hands of the moneylenders. These vary in size, and the degree of harshness and avarice displayed in their transactions varies inversely with the volume of their business. In India, unsecured loans from local money-

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"There have never before been so many dissatisfied people in the world. This is not because there is more starvation, more pain, or more misery than at other times. The facts are quite to the contrary. The rising discontent is rather because of knowledge—the increased knowledge of how other people live. When people lived in isolated communities, completely ignorant of the world beyond the horizon, they had only local standards of comparison. But today, they have information, and misinformation, about the delights of distant green pastures. This becomes the basis of resentment against their lives and their surroundings. The resulting discontent is responsible for much of today's political instability and economic unrest."

From Address by Willard R. Thorp, Assistant Secretary of State for Economic Affairs in U.S., at the Conference on World Land Tenure, October 10, 1951.

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lenders may carry up to 300 per cent. interest.

This problem is most widespread in Asia; the result is that the cultivator is unable to invest in order to increase productivity. In Brazil, too, where small farmers are becoming more numerous, credit facilities suited to their scale are wanting.

In China, it was estimated in 1933 that more than half the farmers were burdened with debts incurred through consumption needs. In Ceylon, the figure reached 73 per cent.

Co-operative Credit?

In such conditions, the creation of co-operative credit institutions in isolation from other measures is not likely to be a sufficient remedy. The volume of small savings on which

such banks must be based is extremely low; the instability of world market prices make such banks easily liable to collapse.

Tenure Changes Not Enough

Changes in the land tenure system are more likely to lead to a higher standard of living when they form part of a general programme than when they are undertaken in isolation. Many of the benefits will be nullified unless credit facilities, advice and co-operative marketing are also provided. Tax policies should also be designed to lighten the burden on small farmers.

Where there is no shortage of land, a change in the size of farms is expected to be beneficial where land from large extensively-cultivated estates is redistributed for more intensive use by tenants in smaller (not necessarily very small) units. But where large estates are already intensively cultivated, no benefit can be expected from subdivision.

Where there is pressure of population on land, a change in status from tenancy to fuller ownership is desirable. However, this will not increase the size of holdings, and uneconomic units will remain: in this case it is vital that credit, advice and marketing improvements be adopted. The setting up of rural industries on a small scale will also assist in easing the pressure of labour intensity.

Rearmament and Point Four

By H. Mendershausen

A strong defence effort in the western world is likely to raise two major problems for underdeveloped countries.

1. It tends to create a scarcity of certain supplies needed for their upkeep and development through the pre-empting of such supplies for defence purposes. This may work through a reduction of the countries' imports or through a diversion of their own resources to exports or internal occupations that do not seem suitable for development.

2. The defence effort in the West is likely to stimulate in the underdeveloped countries investment in directions connected with the defence effort or otherwise pointed up by insufficiency of foreign supplies.

This provides a peculiar mixture of favourable and unfavourable circumstances. On the one hand, the urgency of the times helps to overcome entrepreneurial timidity and depressive tendencies; it often favours financial largesse, perhaps to point of inflationary abandon. On the other hand, it reduces essential supplies to underdeveloped countries and may drain them of their own.

Conflicts of Policy

These circumstances affect the economic processes directly. They also affect the policies of economic development of the countries themselves and of the western powers interested in it. The former will tend to assure themselves of outside assistance in obtaining supplies and advice—managerial, technological—suitable to their own policies. The latter will feel pressed to limit their assistance, owing to the absorption of their resources in defence, and to

From Pattern of Overseas Economic Development in World War II, Economic Internazionale, Genoa, August, 1951

concentrate it on projects designed to create additional resources for their defence effort.

Development assistance from the outside may thus conflict with development policies on the inside. But a broad understanding of the defence effort in the leading industrial countries and of the development effort in the new countries, will facilitate co-operation in development policies, and it would seem that such understanding has grown over the last 10 years.

But even without formal agreement, a measure of independent power will permit a country to turn outside assistance given specifically for a defence-related purpose to the advantage of its general development by reallocating its own resources in a certain manner. In addition, specific assistance can in time reveal itself of more general value. In any case the defence effort in the West is likely to minimize the static or depressive tendencies in the world economy and to replace many an economic and philosophical either-or by an as-well-as.

War Experiences

The experience of World War II brings out the great importance of, first, the incidental effects of Western war economy on economic development in Latin America and the Middle East and, second, the role of special purpose assistance.

In some material respects the war experience greatly accelerated economic development. It also caused a good deal of thinking about general and balanced economic development in those countries. Independent governments, where in existence, made it their business to plan and police development, while in dependent territories independence movements made general industrial development a major part of their programmes (India's Bombay plans).

The major force causing the industrial expansion in the Middle East was the demands of the large armies present in these countries in wartime. Their requirements of industrial products of all sorts were tremendous and their share in the enlarged production often dominant.

It has been calculated that in Palestine, up to 1943, the armed forces appropriated about 29 per cent. of the entire net output of agricultural, industrial and building production, and a much higher percentage in industry alone. Of armaments they took of course everything; and the amounts were substantial. Indian industry supplied the Eighth Army in Egypt, which included large Indian contingents, with nearly everything it wore and shot with, including much artillery and armoured cars.

Besides the demands of Western and the native armed forces, active home demands and declining imports stimulated increased manufacturing output. Low imports of equipment and raw materials, however, set limits to the expansion and the wearing down of some plants (e.g. in textiles) accompanied the setting up of new factories (e.g. in engineering).

Stimulus to Development

The presence of large Western armed forces in the Middle East had powerful effects on the local economies. A most active and demanding segment of Western civilization was transplanted for several years into underdeveloped areas.

The manifold needs of these organisations had to be met where they were, preferably out of local means to avoid expensive and dangerous

transport, and this compelled varied and speedy development. The host countries obtained in a package modern management and organization, technical assistance and instruction, formulated economic objectives, acquaintance with, if not actual possession of, the tools and materials needed to meet them, and a variety of installations and stores.

In many ways, this was an ideal stimulus to development. Its peacetime equivalent has not yet been found. But it carried with it strong negative and exploitative effects. One may wonder whether in the long run the armies stimulated more by what they gave or by what they took.

There is no country from Central Africa to New Guinea in which the wartime demonstration of the tools, goods and ways of the West did not form a major challenge to the population. It was a revolutionizing influence, although perhaps not always a civilizing one. These demonstrations together with the precarious supply of Western goods certainly increased the appetite for Western-type industrial development in many places.

Limited in World War II to small direct material contributions and the technical assistance rendered by occupying armies in some places, positive development assistance from the West is likely to be more important in the rearmament period; for, as has been said before, the goods are more available. To some extent they will be sold for cash; but direct private investment, public long-term credit and grants will probably be dominant. Withdrawals of capital through the liquidation of foreign holdings will probably play a lesser role than in World War II.

Strategic Materials: A Warning

THE PRIMARY PRODUCERS will not be willing to build up dollar and sterling balances as they did in World Wars I and II. More tangible returns in the form of both consumer and capital goods will be expected.

Politically our development plans for the under-developed areas should go beyond the production of a few strategic materials. They should stress economic development of a long-range nature, the benefits of which to the welfare of the people of those areas should be evident.

The economic and political difficulties inherent in the increased production of strategic materials from the under-developed areas would suggest that a most effective instrument in the mobilising of these materials can be the wise and realistic programming of exports of manufactured goods by the United States and Western Europe.

From Proceedings of the Academy of Political Science, Columbia University, U.S.A., Paper on "Strategic Materials," 1951

YOUR QUESTIONS ANSWERED

SEE INSIDE FRONT COVER

The End of the Point Four Road

By CORRADO GINI

Left-wing criticism of the indiscriminate application of economic aid for underdeveloped countries

TRUMAN'S POINT FOUR has in mind above all the producer's viewpoint; as its purpose is precisely that of raising the level of production.

For some time past many have placed great hopes in the development of the tropical and equatorial countries. European races seem above all unsuited to open air work in hot climates, so that the economic development of the now depressed tropical and equatorial areas will obviously be impossible on the scale desired unless there be a large increase in the numbers of the native populations, or mass immigration of the Asian ones.

But would not this be a happy solution, which would reconcile the European wish for production with the Asian of consumption?

Even if we agree that this would be advantageous we should not be blind to the direct danger that such a solution would present for the European races, and the indirect danger for world civilisation, so long as it is in their hands. There is already a numerical disparity between the populations of European origin and the others they themselves have introduced into the international community. The European races now represent less than half the population of the world, and the application of Truman's Point Four to tropical and equatorial countries, developing their population either by the natural increase of the natives or by the immigration from Eastern countries, would only accentuate the numerical inferiority of the European races and would make it impossible for them to maintain the pre-eminence they are now laboriously defending.

Effect on Asia

Here it is opportune to recall that, if Europeans are now in a difficult situation, this is due to the fact that they have followed in past centuries a similar policy—similar in its aims if diverse in its means—towards the stationary society of Asia.

India, China, Japan, Indochina, Indonesia were living, in past centuries when they first came into contact with the Western peoples, in a regime of commercial isolation and in static conditions from a demographic and an economic point of view. They afforded an example of the hypothesis contemplated by the Malthusian theory. The growth of population had reached the subsistence limit, *per capita* consumption was very low and demographic density very high.

The Western peoples, then possessed of great expansive power, both economically and demographically, did not suffer exclusion from those markets which were susceptible of becoming profitable outlets for their products, and in the name of economic progress they forcibly compelled those countries to open their frontiers to them.

The commercial currents thus started and the introduction of the hygiene of the West have resulted in

From "The Plans for Development of Depressed Areas and the Supremacy of the Western World," Quarterly Review, Banca Nazionale del Lavoro, Rome, April-June 1951

the overthrow of the traditional equilibrium of the East. The subsistence limit has been raised, the death rate has been lowered, and those peoples have been started on the path towards a new demographic and economic level that has not yet been reached.

The Western populations have obtained from trade with Asia the economic results they hoped for, but little by little the growth of the Asian populations caused by them has reached such a point that they are pressing heavily on the peoples of the West. This pressure is all the more severe as the territories surrounding the Eastern peoples (Siberia, Australia, New Zealand, Afghanistan, Persia, Canada, etc.) are scantily peopled.

Hence the Yellow Peril, against which the Westerners have set up the barriers of immigration restrictions, causing, as has been said, violent reactions. The Asian peoples do not deny—their spokesman, Mukerjee*, indeed gives it explicit recognition—the credit due to the Westerners for bringing about the progress of the East, but they demand that these Westerners should not try to escape from the consequences to which their action has given rise.

The experience of the past should therefore make the advocates of Truman's Point Four cautious of the dangers into which its application may run.

Decline of the Westerners

It is certain that the Westerners cannot expect to dominate the world forever, and sooner or later they will have to make way for younger races, handing on to them the torch of progress and the direction of the human future.

A natural mechanism tends indeed to assure the transmission of the civilisation of the older to the younger races, by enabling the latter to filter into the lower strata of the former, where they propagate and gradually rise to the higher strata, assimilating the culture and gradually transforming the racial composition and demographic structure of the nation.

Unfortunately, the Western peoples have interfered with this mechanism in two ways, on the one hand by accelerating the development of the less civilised peoples, on the other by preventing the infiltration of the latter into the territories they occupy or control. Thus today, when the time is not yet ripe for the torch of civilisation to pass from the hands of the Westerners to that of the Easterners, the latter are crowding impatiently and threateningly at the gates of the territories controlled by Europe, claiming a succession that probably would mark an arrest if not a backward step in the march of human progress.

The application of Truman's Point Four to tropical and equatorial lands would aggravate the situation, making the expansion of immature populations inevitable.

If any lesson can be drawn from all this, it is that nature should not be forced. This does not mean that man should remain inert in his dealings with her, but he should realise that he cannot drastically interfere with her mode of procedure without injuring himself.

**Radhakamal Mukerjee, "Migrant Asia," published in Rome, 1926*

Britain's Colonial-Development Commitments

Size and Structure of the Existing Programmes

SINCE 1945, £12 million has been devoted annually to economic and welfare schemes in the Colonies. In addition to this there are the projects undertaken by the Colonial Development Corporation (Capital resources: £110 million) and the Overseas Food Corporation (Capital resources: £55 million).

The Colombo Plan is of course on a far larger scale. It covers the Commonwealth as well as the Colonial Empire and these countries have estimated their joint requirements of foreign aid at £1,000 million for 1951-1957. Figures are already being revised upwards on account of rising prices.

The U.K. is committed to supplying over £300 million, Canada and Australia £100 million, the World Bank £200 million. There remains a gap of £400 million into which the Americans have declined so far to step.

Colonial Development Corporation

Division	*Capital Sanctioned £ million*	*% of Capital*
Agriculture ...	7.9	25.2
Animal Products	3.9	12.3
Factories ...	3.2	10.1
Fisheries ...	1.5	4.8
Forestry ...	3.9	12.5
Hotels ...	.3	1.1
Minerals ...	2.9	9.5
Other ...	7.7	24.5
	31.3	100.0

The Colonial Development Corporation is involved in 50 undertakings spread over 22 territories: 15 of these undertakings are agricultural.

Malaya and Singapore are at present the largest beneficiaries under the development programme, a fact probably not unrelated to the strategic and economic value of this area. The following list gives the main colonial territories in which investment is taking place. Smaller schemes are also being initiated in Dominica, Falkland Islands, Jamaica and dependencies, North Borneo, Seychelles, Tristan da Cunha and Uganda.

Territory	*Capital Sanctioned* £
Malaya and Singapore	5,491,500
Swaziland	4,007,000
Nigeria	2,953,000
The Gambia ...	2,540,000
British Guiana ...	2,475,000
Kenya	2,200,000
Bechuanaland ...	2,139,000
Nyasaland ...	1,742,000
Tanganyika	1,309,000
Northern Rhodesia	1,275,000
British Honduras	1,180,000
Bahamas	1,034,000

Of the total investment of £32 million, 63 per cent. is concentrated in 12 major projects—

Central Electricity Board Loan (Malaya): £3,750,000; Swaziland Irrigation Scheme: £2,580,000; British Guiana Timbers Ltd.: £1,713,000; Macalder Nyanza Mines Ltd. (Kenya): £1,700,000; Usutu Forests (Swaziland): £1,427,000; Vipya Tung Estates (Nyasaland): £1,410,000;

From Report of 7th Congress of the Federation of Chambers of Commerce of the British Empire, June 1951

Federal and Colonial Building Society Ltd. (Malaya): £1,375,000; Chilanga Cement Ltd., (N. Rhodesia): £1,275,000; Lagos Executive Development Board (Nigeria): £1,250,000; Bechuanaland Cattle Ranch: £1,229,000; Gambia Rice Farm: £1,115,000; Bahamas Development Undertaking: £1,034,000.

Colombo Plan

Tranport and communications take first place among the projects of the Colombo Plan, followed closely by agricultural development. Of a total of £107 million planned for South-East Asia, £21 million goes to transport and communications, £20 million to fuel and power and £13 million to agriculture. The remaining £53 million is earmarked for "social capital."

Malaya expects to draw a high proportion of its requirements of raw materials and equipment for the plan from domestic sources, and the expenditure of foreign exchange is therefore estimated at only 19 per cent. of the total.

New United Nations Publications

World Economic Report 1949-50 (17s. 6d.) Review of Economic Conditions in the Middle East (7s. 6d.). Review of Economic Conditions in Africa (9s.).

These three reports are now available from H.M. Stationery Office.

Methods of International Financing of European Immigration (Document E/2019).

Expanded Programme of Technical Assistance. Third Report of the Technical Assistance Board to the Technical Assistance Committee (Document E/2054).

Volume and Distribution of National Income in Under-Developed Countries (Document E/2041).

Relations in the Fluctations in the Price of Primary Commodities to the Ability of Under-Developed Countries to obtain Foreign Exchange (Document E/2047).

Land Reform. Defects in Agrarian Structure as Obstacles to Economic Development (Document E/2003). Reviewed in this number of the *Economic Digest.*

Effects of United States Defence Programme on Trade with Latin America (Document E/CN12/234/Rev. 1).

Yearbook of International Trade Statistics, 1950. Available from H.M. Stationery Office (12s. 6d.). Gives an analysis of the trade of individual countries. This useful publication, issued for the first time, is in fact a continuation of International Trade Statistics published annually by the League of Nations before the war.

U.S. POST-WAR FOREIGN AID

Since July 1, 1945, more than $30,000 million in United States aid has been utilised by other countries. As of last March a total of $20,600 million had been used in the form of grants, and $10,800 million in credits.

The American National Advisory Council on international monetary and financial problems, announcing these figures, makes the following recommendations :—

> For the fiscal year 1952, extraordinary economic assistance should be on a grant basis and military assistance should be likewise or against cash payment and not on a loan basis. Development should be financed on a loan basis, in economic cases where the capacity to service a loan exists and the projects are of the appropriate type.
>
> Economic assistance on a grant basis should not be extended "for the purpose of increasing gold and dollar reserves, nor should countries participating in the defence effort be required to reduce their present level of reserves as a pre-requisite for receiving United States aid."

U.S. Embassy Bulletin, September 20, 1951

WORLD Notebook

U.S. Capital Growth

If present plans are realised, American business will set a new record for capital investment this year, almost $25,000,000,000, a figure far exceeding the former record of $19,200,000,000 set in 1948. Put in real rather than monetary terms, this means that American business expects to build more new plants and install more new equipment than ever before in our history. From these new facilities in the future will emerge additional goods and services, and these in turn will strengthen both defence effort and civilian economy. This capital investment will not only increase the total productive capacity of the economy, but, by making available new machinery and new techniques, will help further to increase productivity per worker, a major factor in determining how the standard of living will respond to current military needs.

New York Times, September 27 1951

S. Rhodesia's Asbestos Overtaking Gold in Value

Asbestos is rapidly overtaking gold as one of Southern Rhodesia's most profitable minerals. Estimates of the value of the current year's output have been put as high as £5,000,000, or five times more than the value of a decade ago, and only £1,000,000 below the current estimated value for the Colony's gold output.

Mining Journal, September 28, 1951

India Gets Pepper Windfall

Black pepper having become popular in the U.S. since the war, and Indonesia's vines having been destroyed, India is now enjoying a boom in the commodity. Exports have soared from 17,000 cwt. a year in 1938 to 302,617 cwt. last year; profits are said to be up to 4,000 per cent. The pre-war price of 5 cents a pound has risen to 156 cents. Most of the pepper growers on the Malabar coast are smallholders, owning only a few vines. Black pepper is obtained from the dried fruit, white from the same fruit when ripe.

Eastern Economist, September 14, and New York Times, September 16, 1951

U.S. Pays For Workers' Ideas

Almost every American Government department pays for any suggestion that will make the Government more efficient or the burden on the taxpayer lighter. The Defence Department alone paid out $584,796 to civilian employees during the year ended June 30, 1951. In return it expects savings totalling $21 million—a return of $35 for every $1 reward.

Here are a few of the cash-paying suggestions:

- A mobile bailing unit for Army clothing.
- A blackboard for instructions to a typing pool.
- A rack which increased fivefold the amount of pipe that workers can clean in a day.

The lowest award made is $10. Some ingenious workers turn the suggestion programme into a good thing. A naval shipyard employee has received 29 payments. An employee on a naval air station has received $775 for developing a new aircraft-fabric tester.

New York Times, September 16, 1951

National Income of Ireland

The national income of Ireland increased from £352 million in 1949 to £363 million in 1950 based on factor cost. The largest proportion continued to be provided by agriculture, which accounted for 29 per cent. of the total. Income from industry continued to expand, and in 1950 made up nearly 24 per cent. of the total. Personal consumption rose by nearly 8 per cent. and net investment from £40 million to £45 million. Imports increased considerably more than exports; they rose more than 12 per cent. in volume and more than 22 per cent. in value, reaching nearly £160 million, so that the trade deficit was £87 million. The surplus on account of other current items was £57 million.

Irish Statistical Survey 1949-50, Dublin

Liquidation of Zaibatsu of Japan

The Holding Company Liquidation Commission, established in Japan in July 1946, was dissolved in July of this year, after completing its work of splitting up the Zaibatsu concerns, the big financial trusts which had had almost complete monopolistic control in practically every field of finance, trade, and industry of pre-war Japan. This Commission was established to prohibit members of Zaibatsu families or their appointees from holding positions of responsibility in any company, and to prohibit interlocking directorates and intercorporate security ownership and contractual service or patent arrangements in restraint of competition or trade among the list of restricted concerns.

Before the Commission was dissolved, 53 members of 10 Zaibatsu families, such as Mitsui, Iwasaki (Mitsubishi), and Sumitomo were under the strict supervision of the Commission. Some of the members, however, have recently been freed of supervision, since it is believed that their efforts will infuse spirit and vitality in the national effort toward reconstruction and economic stability.

The Japan Economic Weekly, Tokyo, Japan, July 19, 1951

Labour for Canadian Defence

The Canadian defence programme originally envisaged for 1951 was expected to require up to 10 per cent. of Gross National Production and, by the end of the year, the services of up to 200,000 people. It is estimated to have absorbed 100,000 up to the present but appears to be lagging.

That part of the labour force engaged in manufacturing rose by 212,000 in 1946-50, an increase of over 18 per cent. This increase was attained only at the expense of certain other sections of the economy, notably agriculture, and in view of the shortages of skilled and semi-skilled tradesmen which have persisted practically throughout the period some doubt naturally arises as to the ability of the economy to man a manufacturing industry further enlarged to the extent planned for 1951-3, while also providing the additional labour required in other sectors.

Immigration added over 430,000 persons to the population in the years 1946-50, about 260,000 of whom may be supposed to have entered the wage-earning group by 1951. The present labour force is, therefore, probably composed to an extent of nearly 5 per cent. of persons who came to this country in the years 1946-50.

Immigration this year may set a post-war record of about 150,000,

of whom about 60 per cent., or 90,000 may be expected to take jobs. Deducting 20,000 for loss through emigration, the net influx of workers may be about 70,000. The heavier inward movement this year is attributed to government assisted passages, group movements sponsored by individual industries such as mining, and an easier shipping situation.

Commercial Letter, The Canadian Bank of Commerce, Toronto, August, 1951

ECA Aid to Sweden and Portugal

Sweden and Portugal, like the United Kingdom and Ireland, are European nations for which ERP aid is no longer necessary. The European Payments Union has been an important factor in improving the economic conditions of these two countries. Total ECA aid since the beginning of the programme has amounted to $50.5 million for Portugal and $118.5 million for Sweden.

Both Sweden and Portugal will continue to participate in the ECA technical assistance programme. Portugal, as a member of the North Atlantic Treaty Organisation, will continue to participate in the Mutual Defence Assistance Programme, and will also receive aid for projects in overseas territories.

The Journal of Commerce, New York N. Y., August 1, 1951

Argentine Taking Fewer British Textiles

In September an unusually large number of packages of cotton yarns entered Argentina. Statistics of Argentine textile imports show that the position of the United Kingdom in the list of Argentina's suppliers is now worse than ever. Out of a total of 12,179 packages of yarns and cloth, Britain supplied only 49 packages. Even Western Germany, which is just returning to this market for the first time since the war, did far better than Great Britain. The reason why United Kingdom shipments of textiles to Argentina have almost ceased is that the Central Bank of Argentina has not been granting prior exchange import permits for British textiles, but has been restricting imports of so-called less essential goods, including textiles.

Fortnightly Review, Bank of London and South America, Ltd., September 22, 1951

Japanese Cloth Exports

Contracts for cotton cloth exports during the first half of September totalled 39,146,000 yards, worth $10,965,000 (about £3,900,000). Of this total the sterling area took 29,710,000 yards, worth $6,204,000 (about £2,200,000).

The ten leading cotton cloth-buying countries during the period were (in yards): Hongkong with 5,140,000, Macao 5,100,000, Thailand 4,900,000, Aden 3,923,000, Indonesia 3,886,000, Australia 3,321,000, Kenya 1,608,000, Belgian Congo 1,539,000, United Kingdom 1,512,000, Malaya and Singapore 1,475,000.

Reuter, October 1, 1951

Turkey's Political Stability

Turkey's secret is simply that she has no class conflict. If democracy seems as natural there today as did dictorship for some thirty years previously, it is because neither one system nor the other meant the domination of one class over another.

The land in Turkey, more than anywhere else in Europe, belongs to those who till it. Turkey is without a real proletariat for the Turks are a peasant people.

Die Weltwoche, Zurich, September, 1951

Half a Million Companies

The half-millionth Company was registered on Wednesday, 3rd October by the English Registrar of Companies in London. Rather more than a quarter of a million are "live". The first Company was registered in 1884, but enumeration did not begin until the Act of 1862 which incepted limited liability. Fifty or more Companies register every day.

Financial Times, London

On December 31, 1950, there were 261,690 Companies on the Registers in Great Britain, of which 17,134 were Public Companies and 244,556 were Private Companies.

Companies General Annual Report, Board of rade, 1950

India Chooses Cash Crops Instead of Food

Seven million acres have been diverted in India from cereal production to cash crops in the last three years: 280,000 acres have been turned over to jute, and 1,500,000 acres to cotton, during the last year alone.

India is now the third largest producer of tobacco in the world, with 774,000 acres under cultivation. Exports have nearly doubled since 1947.

The change-over is being actively promoted by the Government in order to obtain more foreign exchanges for the purchase of grain imports.

Eastern Economist, New Delhi, September 28, and Indian Trade and Industry, September, 1951

Britain's New Middle Classes

IN MONEY VALUES the index of industrial earnings in Britain rose more in the six months ended April 1951 than at any time since 1947. The percentage increase over October 1938 moved from 153% to 167% in manufacturing industry; average weekly earnings for all workers in April 1951 are estimated to have been about 156% above the level of October 1938.

The top average *earnings* per week in that month were:

Blast furnace workers	£9	0	8
Steel sheet mfr. ...	£9	9	6
Motor mfr. ...	£9	10	1
Aircraft mfr. ...	£9	0	0
Furniture mfr. ...	£9	0	8
Shopfitting ...	£9	7	4
Printing and Pubg.	£9	3	1

Miners average £10 9 8d. per week, and dockers £9 15 11d. per week. Agricultural labour averages £5 15 6d. Among the whitecollar jobs, National Government workers average £6 11 10d. and Local Government workers £6 4 5d.

This social process seems to be producing a new middle class in monetary terms, with the difference that as a social group they have not been expected to take on what are commonly accepted as middle-class financial obligations. If they live in council houses, they may enjoy a subsidised rent in addition to a middle-class income. They can work in clothes which would (even to-day) cost the white-collar worker his job.

From Ministry of Labour Gazette, September 1951, Manchester Guardian, October 2, 1951, and Economist, September 29, 1951

AFRICA'S FORMIDABLE PROBLEMS—*continued*

capital for this had to be imported from outside Africa, and, with the exceptions of the Union of South Africa and parts of North Africa, this investment has had relatively small effect in generating secondary incomes and investment. Gross export receipts are mostly transferred as income abroad in the form of loan charges and dividends. Internal capital formation is almost entirely lacking, and there is therefore a lack of investment in transport and other economic and social facilities.

Specialisation and trade on an inter-regional basis are very little developed. The population is increasing fast, and though the continent as a whole is sparsely peopled, there is in some areas considerable pressure on land. Improvement of techniques for producing local consumption of goods is necessary for raising the standards of living.

This is not however something which can be done in isolation from other forms of economic development. Any effective improvements in agricultural practices will depend in part upon the development of related industries and services, including scientific and technical institutions for the adaption and dissemination of available knowledge, and its application to the natural and sociological conditions of the area.

CHINA'S LAND REFORM

To the end of June 1951, the number of peasants affected by China's land reform movement reached 285 million, or more than two thirds of the country's rural population. During the past year, 10 million hectares of farmland were distributed to 80 million peasants in the newly liberated areas of East China, Central South China, and the Northwest and Southwest administrative areas. It is estimated that this will save the peasants at least 7.5 million tons of grain annually from the amount formerly paid as rent to the landlords.

In Central South China and East China, land has been distributed to about 60 per cent of the peasants. In the Southwest, more than 70 per cent of the population consisted of poor peasants and farm labourers, and the landlord class held 60 per cent of the total arable land, which has now been distributed to the peasants.

The China Monthly Review, Shanghai, China, August 1951

Tariff Reform Could Stop Electricity Power Cuts

Increased Capacity not the Solution

THE GENERAL INCONVENIENCE and loss of industrial production due to load spreading and shedding cannot be over-estimated. In the electricity industry itself it is the general view that the only solution to the problem is increased capacity, but such an approach tends to lose sight of limited capital resources, on which the industry draws heavily.

The form and level of tariffs plays an important part in influencing the scale of total demand and the magnitude of peak loads. Clearly, over or under production of any commodity is not only a question of manufacturing capacity but also of the strength of consumer demand, which may be stimulated or restrained according to the level of charges imposed.

Weakness of Tariff Structure

It could therefore be claimed that the existing shortages are due primarily to a tariff structure which does little or nothing to deter consumers from switching on load at peak periods.

The principle of the two-part tariff represented a great advance on the single flat rate per unit imposed in the early days of supply, but the mistake was made of not relating the fixed charge element to the capital costs involved at peak period.

What is needed is a drastic modification of the two-part tariff, so that the fixed element covers full capital and overhead costs at peak. Such action would ensure that those responsible for these costs would have to bear them, which is not by any means the case at present. It is well justified on economic grounds, and it also satisfies the principle of equity. There is no reasonable doubt that it would effectively restrain peak consumption by domestic and other small users. By the modified tariff they would be required to pay annually something of the order of £5 per kilowatt of peak demand, which is equivalent to one bar of an electric fire.

To operate the tariff would involve the installation of some form of load controlling device or meter, at a cost of about £3 per consumer, pre-set to the peak load requirements declared in advance by consumers in the knowledge that the greater their demand the greater their standing charge.

From Socialist Commentary, 7 Carteret Street, London, S.W.1, October 1951

EIGHT GOLDEN RULES FOR MANUFACTURERS

Have taste.
If you haven't taste—hire it.
Don't make a designer out of someone on your staff who is no good elsewhere.
Hand-pick a designer from the widest possible field and then trust and honour him.
Pay him more than a jobbing gardener.
Give him one master and shield him from committees of taste.
Keep him in direct touch with as wide a range of interests as possible.
Keep on trying new designs.

Sir Colin Anderson at Design Congress, London, September 19-20, 1951

Also Worth Reading

New Methods in Cotton Industry, *Socialist Commentary, London, September 1951.* Experiments in "work study" have been successful in raising P.M.H. by 25 to 30 per cent.; the present climate of full employment has contributed largely to this success story.

Education Statistics 1949-1950, *Local Government Finance, September 1951.* Tables, with explanatory article, of average numbers of pupils, net expenditure by authorities, costs per pupil and costs of school meals. The number of pupils per teacher as at January 1950 is stated to have been 30.5 in primary schools, 21.6 in secondary schools. The supply of teachers has just failed to keep pace with rising school rolls.

Opportunities Offered U.K. Exporters by the Congo Ten Year Plan, *Board of Trade Journal, 1 September, 1951.* The keyword of Congo planning is mechanisation and the world is being searched for machines and the men to nurse them, to exploit the abundant latent energy that lies in the forest and rivers.

Outlook for British Trade in Pakistan since Partition, *Board of Trade Journal, 1 September, 1951.* Reputation for superiority of British goods remains in Pakistan, but competition in all traditional export lines has to be faced. Higher prices and long delivery periods offered by U.K. producers have tended to encourage Pakistan to seek other sources.

Economics of Book Publishing, *P.E.P. Broadsheet No.* 330. Is the panic fear of soaring costs, lower royalties and the abolition of the Net Book agreement really justified? It is suggested that elasticity of demand for books is lower than the trade appears to think.

Accounting as Metaphysics, *District Bank Review, September 1951.* Traces the rise of accountancy from the stage of simple receipts-and-payments accounts to that of the highly abstract valuations of the modern balance-sheet. "Accountants are (now) practising metaphysicians."

East-West Trade in Germany, *Times Review of Industry, September 1951.* Restatement of the difficulties of exchange and certification, and how it affects the West German merchants.

A Study in Decentralization, *The Times Review of Industry, September 1951.* Description of the system of control in one of the Big Five banks, its virtues and its drawbacks.

Revised Index of Business Activity, *Guaranty Survey, Guaranty Trust Company, New York, September 1951.* The purpose of the new index is to measure the cyclical behaviour of business, its fluctuations about the expected normal level for the particular time. Indices are given for the whole of the period 1919-1951 at monthly intervals.

Annual Report. *Public Works Department, Wolverhampton Corporation, July 2,* 1951. This report will be of interest to builders in that it contains a section on direct labour house-building, in which costs are given for two contracts together with the saving derived from the direct employment.

The Real Product of the United Kingdom, 1946-1950 by C. F. CARTER, *London and Cambridge Economic Service, August 1951.* Revised indices in not too much detail. The figures for 1950 show a severe fall in the value added by agriculture, forestry, fishing, etc.; in manufacturing, the greatest rises are in paper and printing, vehicles and chemicals.

Cost Components of Wool Suits, *London and Cambridge Economic Service, August 1951.* The effect of changes in wool prices on finished goods. Though wool price may double, retail price of suits should not go up by more than 18-27 per cent., since prime wool cost is only 7-14 per cent. of retail price.

Measurement of Productivity—Applications and Limitations, *Joint Committee of the Institute of Cost and Works Accountants and the Institution of Production Engineers, Gee and Company Ltd., London.* A clarification of the costing problem, describing the various methods of measurement, and giving a sound lead as to the form of presentation of the results to the supervisors and foremen who are to act on it.

Swiss Capital for Export, *The Three Banks Review, September, 1951.* Switzerland is the only country in Europe with a surplus of domestic savings available for lending, in addition to hoards of funk-money.

International Comparisons of the Purchasing Power of Money. *Review of Economic Progress, Brisbane, May, 1951.* A comparison based on the costs of tourism in Italy, France, Switzerland and the U.K.

The Concept of Liquidity in English Banking, by R. S. SAYERS, *Quarterly Review, Banca Nationale del Lavoro, Rome, April-June, 1951.* A definitive essay on banking prudence.

The Trend of Real Income in Italy, *Review of Economic Progress, Brisbane, June, 1951.*

Ausmass und Formen vertikaler Verflechtung in der Eisen—und Stahlindustrie der Vereinigten Staaten, Grossbritanniens, Frankreichs, Belgiens und Luxemburgs, by Dr. WALTER LAUERSEN, *Institut fur Weltwirtschaft, Kiel University, July, 1951.* A compendium of the size and structure of vertical integration in the iron and steel industries of U.S.A., Great Britain, France, Belgium and Luxembourg.

Curbing Price Rrises, *Socialist Commentary, October, 1951,* by ANTHONY CROSLAND. An underlining of Gaitskell's speech at Blackpool, summarised in the October number of the *Economic Digest.*

Interim Report, *Liberal Party Housing Committee, June, 1951.* This Committee's recommendations are:—1: Controlled rents should rise by 25 per cent.; 2: Reduction of the floor area of new houses to 700 sq. ft.; 3: More two- and three-storey blocks of flats; 4: The Government should announce housing targets three years in advance

Housing Progress, *Monthly Summary, National Bank of Australasia, Melbourne, September 12, 1951.* Australia's home building programme has expanded since 1948 by 30 per cent., a great part of the increase being in timber houses.

The Cotton Textile Industry in Egypt, *Economic Bulletin, National Bank of Egypt, Cairo, September, 1951.* A short history of the coarse spinning and weaving industry in Egypt, which under the shelter of tariffs since 1930 has grown into an industry employing 65,000 men which is now supplying most of the coarse textiles market in the country.

Post-War Trends in Egypt's Foreign Trade, *Economic Bulletin, National Bank of Egypt, Cairo, September, 1951.* Largely isolated from the rest of the world during the war, Egypt has undergone profound changes in her trade structure. Cotton exports have increased from 72 per cent. to 80 per cent. of total. Imports of cereals have shot up to 40 times the pre-war weight; import of gold has increased sixtyfold by weight. The share of Europe in Egypt's trade has dropped from around 75 per cent. to 65 per cent. of total; exports to North America have increased.

Monetary Policy Under International Strain, *Bancaria, Rassegna dell'Associazione Bancaria Italiana, Rome, July, 1951.* Written by OTTO VEIT, Chairman of the Landeszentralbank Hessen, this article underlines that inflation brought about by defence policy can only be contained by a severe monetary policy, at whatever cost in unpopularity. The effectiveness of interest rates is reduced to nil in present conditions.

The Theory of the Multiplier, by VALERIO SELAN, *Bancaria, Rome, July, 1951.* A history of the theory, followed by particular review of the propensity to consume, the nature and size of leakages, and an analysis of multipliers in an open economy.

A Few Notes on Banking in Indonesia, *Bancaria, Rome, July, 1951.* H. J. MANSCHOT, Manager of the Java Bank, bank of issue of Indonesia, here describes briefly the setting up of an autonomous money capital and credit system after the break with the Netherlands.

Fuel and Power Economics, *The Times Review of Industry, October, 1951.*

Les consequences economiques du rearmament en France, La Congiuntura militare in Italia, and L'economica del programma di difesa del Canada, *Economia Internazionale, Genoa, August, 1951.* The economics of defence in three countries different in social structure and in price structure.

Cut off the Joint? *Economist, October 6, 1951.* Warning of a serious meat shortage this winter.

New Books Reviewed

This Unsuccessful Age by Walter Eucken, William Hodge & Co., Ltd., Edinburgh and London (10/-).

This fascinating book was the subject of a digest review in the May 1951 *Economic Digest*, when its German title was freely translated as 'Our Blundering Age.' The publishers of the English version use the secondary title 'The Pains of Economic Progress,' and Professor John Jewkes has written an introduction which expresses the admiration of economists of the clear Liberal views and convictions of the great German that made no compromise with the antics of Hitler and the acrobatics of Schacht. The translation is admirable.

Some Accounting Terms and Concepts, Cambridge University Press (3/-).

This is a report by an Exploratory Committee set up by the Chartered Accountants' Institute and the Institute of Economic and Social Research, who were interested in the possibility of making the final accounts of Companies readable to the economist. The object in view is that a consolidation of final accounts would then afford a basis of the social accounts of a nation.

Allowing for confusion in the use of terms by accountants and the use of the same terms by economists, the suggested redesigning of the revenue accounts is not revolutionary; it involves chiefly a change of technical terms. "Income" is substituted for "net profit before taxation," for instance.

An appendix restates some recommendations made by the Council of the Institute of Chartered Accountants as to depreciation of fixed assets, valuation of stock-in-trade and accounting under conditions of rising prices—the three points at which the accounting view and the economic view diverge most.

The New Issue Market and the Finance of Industry, by R. F. Henderson, Bowes & Bowes, Cambridge (25/-).

This book concentrates on the mechanism of new issues by the "small" public company. It estimates the volume of funds provided by the new issue market, points out the problems arising out of the demand for and the supply of such funds to small companies (the Macmillan Gap) and analyses the available statistics.

A comparison of new issues in 1937 with those in 1945-47 reveals the following tendencies:

1. Average sizes of issues in real terms (*i.e.*, allowing for price rise) are smaller now.
2. The costs of issue are smaller.
3. Private placing and finance are increasing.
4. Although small issues are increasing in number, a larger proportion of these do not create new capital assets, but are conversions from private to public status in the companies concerned.

Now that Stock Exchange methods of finance have become a politically flavoured subject, this book is a very desirable one, and will bring a better understandnig of the uses of the new issue market in that context.

Fourth Report from the Committee of Public Accounts, H.M. Stationery Office (1/3).

Pointing out that the size and scope of public finance have grown since 1914, this Report criticises the relaxation of control which the Treasury once had over expenditure. The Treasury has now assumed responsibility for economic planning, and therefore its duties are no longer confined to those of "prudent housekeeping". This has weakened the element of control, all the more necessary now that a larger proportion of the national income is spent by Government Departments.

In recent years, too, a larger amount of work has been delegated to independent bodies appointed by Ministers and not answerable directly to the Committee of Public Accounts. There has been laxity among some of these bodies. Treasury nominees should, therefore, be appointed to them, not with rights of veto but with the duty of advising and reporting back to the Treasury. "It seems to be a reasonable assumption that had there been Treasury representatives on the Boards of Festival Gardens Limited and the Medical Research Council, the Treasury would at least have had advance warning of circumstances referred to in our previous reports and some preventative action might have been taken."

Printed and published in Great Britain for The Economic Research Council, 18 South Street, London, W.1 by The Industrial Press (Southend) Ltd., 72a & b Bournemouth Park Road, Southend-on-Sea, Essex

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Essex